



The Rank Group Plc
Leaders in Leisure and Entertainment

Directors' Report and Accounts 1997

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This document contains the Directors' Report, the Report of the Remuneration Committee, the Accounts and the Auditors' Report for the year ended 31 December 1997.

The Chairman's and Chief Executive's Statements, the Finance Director's Review and the Divisional Reviews are contained in a separate document – the Review and Financial Summary.

Directors' Report

The Directors submit their Report and Statement of Accounts for the year ended 31 December 1997.

The Rank Group Plc was incorporated in the United Kingdom on 22 December 1995 and following implementation of a scheme of arrangement under section 425 of the Companies Act 1985 acquired 100% of the issued share capital of The Rank Organisation Plc on 7 October 1996. Prior to this date, the Company did not trade and had no assets other than nominal cash balances and no liabilities. Merger accounting principles were used and the comparative results have been presented as if the new group had been established throughout the comparative accounting period.

Principal Activities and Business Review Rank is one of the UK's leading leisure and entertainment companies and an international provider of services to the film industry. Its leisure and entertainment activities include Hard Rock Cafes and global rights to the Hard Rock brand, gaming, cinemas, nightclubs, themed bars, pub restaurants and multi-leisure centres, and holiday resorts. Rank also owns film processing and video duplication facilities and has a 50% investment in Universal Studios Resort, a major theme park and development at Orlando, Florida. Rank operates primarily in the United Kingdom and North America, although it also has activities in Continental Europe and other parts of the world.

In April 1997 Rank sold Rank Film Distributors Limited for a cash consideration of £65m and in June 1997 sold its remaining interest in Rank Xerox to Xerox Corporation for gross disposal proceeds of £940m. There were no material acquisitions in the year.

An analysis of turnover, profit, operating assets and net cash flow by business activity is given on pages 24 and 25. The Group's continuing activities and businesses are reported on in the Review and Financial Summary.

Profit and Dividends Profit before tax for the year was £260m (1996 £65m). Profit for the year after tax and minority interests was £193m (1996 loss £34m).

The Directors recommend a final dividend of 12.75p per Ordinary share which, together with the interim dividend of 5.25p already paid, makes a total for the year of 18.00p per share (1996 17.00p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 1 May 1998 to those shareholders whose names are on the register on 6 March 1998. The Directors are seeking shareholder consent through resolution 8 to give Ordinary shareholders an opportunity to receive new Ordinary shares with a value of 14.00p instead of the cash dividend of 12.75p.

Fixed Assets The Directors have considered the total net book amount of land and buildings and are of the opinion that it is not significantly different from market value at 31 December 1997.

Share Capital During the year the Company purchased 83,687,655 Ordinary shares, representing 10% of the issued Ordinary share capital, pursuant to the authority granted to make market purchases of shares at the 1997 Annual General Meeting.

Details of the new Ordinary shares issued pursuant to the exercise of options under Rank's share option schemes are set out in note 22 on page 35. Note 22 also contains details of the Ordinary shares issued pursuant to the conversion of the Company's Convertible Preference shares.

A resolution will be proposed at the Annual General Meeting to authorise the Directors to allot and grant rights over the unissued share capital and to authorise the Directors to allot and grant rights over Ordinary shares for cash up to a maximum nominal amount of £3,774,353 representing 5% of the issued Ordinary share capital, without first making a pro rata offer to all existing Ordinary shareholders. A similar resolution was passed last year.

A resolution will also be proposed at the Annual General Meeting to authorise the Company to purchase up to 10% of its Ordinary shares at or between the minimum and maximum prices specified in the resolution set out in the Notice of Meeting. This power would only be used after careful consideration by the Directors, having taken into account market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The authority would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchase could be expected to result in an increase in earnings per share.

Directors The current Directors of the Company are listed on page 29 of the Review and Financial Summary. All of them were Directors of the Company throughout the year, except John Sunderland who was appointed a Director with effect from 1 January 1998. John Sunderland (a member of the Audit Committee) will retire at the Annual General Meeting and, being eligible, will offer himself for election; he has no service contract with the Company. David Atterton and Michael Jackaman retired as Directors following the conclusion of last year's Annual General Meeting and James Harmon resigned as Director on 10 June 1997. John Garrett resigned as a Director on 2 February 1998.

Directors' Report

Sir Denys Henderson and Peter Jarvis will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election. Peter Jarvis is Chairman of the Remuneration Committee. Sir Denys Henderson has a service agreement with the Company which is terminable by either party on not less than one year's notice. Peter Jarvis has no service agreement with the Company.

The interests of the Directors in shares of the Company and their share options, together with their remuneration, are contained in the Report of the Remuneration Committee set out on pages 3 to 7 with a summary in note 29 on pages 38 to 39.

Human Resources As a continuation of the Group's management development initiatives, from 1998 all senior executives will be assessing themselves against the Group's skills framework for senior management. There are initiatives in all four Divisions which will build on the results and ensure that the Group has a strong senior management base for its future challenges.

An area of prime attention in 1997 was the improvement of consultation and communication processes throughout the Group. There were significant improvements in the communication of the Group's strategy and results through conferences, roadshows and the publication of an annual employee report outlining the achievements of the Group in 1996 and the plans for 1997. The Pensions Act requirements were fully implemented leading to a number of member trustee appointments. Employee involvement was further encouraged by the most successful year so far for the Enterprise & Innovation Awards scheme with over 1,700 entries.

The Group continues to operate an effective equal opportunities policy and is fully conversant with its responsibilities under the Disability Discrimination Act.

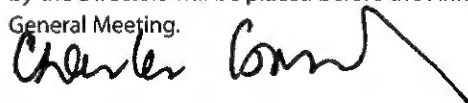
Payment of Suppliers The Company and its subsidiaries agree terms and conditions for their business transactions with their suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier.

Significant Shareholdings At the date of this Report the Company is aware or has been notified of holdings of more than 3% of the Company's issued Ordinary share capital by Prudential Portfolio Managers Limited (41,222,457 – 5.5%), Chase Nominees Limited (39,818,075 – 5.3%), Schroder Nominees Limited (30,369,085 – 4.0%) and AXA-UAP S.A. (23,412,224 – 3.1%).

The Company is not aware of any other person who is interested whether directly or indirectly in 3% or more of the issued Ordinary share capital of the Company.

Charitable and Political Donations Charitable donations made in the UK during the year amounted to £169,000. Overseas companies supported a variety of local and national charities and, in particular, Hard Rock Cafe International Inc. donated approximately US\$835,000, continuing its focus on humanitarian and environmental causes. Rank made no political donations in the year.

Auditors In accordance with section 385(1) of the Companies Act 1985 a resolution to reappoint Price Waterhouse as auditors at a remuneration to be agreed by the Directors will be placed before the Annual General Meeting.



By Order of the Board

Charles Cormick

Secretary, The Rank Group Plc, Registered No. 3140769
Registered Office:
6 Connaught Place, London W2 2EZ

20 February 1998

The Remuneration Committee The Remuneration Committee is comprised solely of non-executive Directors who bring a wide range of experience from other organisations. The Committee is chaired by Peter Jarvis, Chairman of Debenhams plc and previously Chief Executive of Whitbread Plc, and its other member is Hugh Jenkins, Chairman of Thorn plc. They have no personal financial interest other than as shareholders in the matters to be decided, no potential conflict of interest arising from cross directorships and no day to day involvement in running the business of the Group.

The Committee is a Committee of the Board of Directors and has been established with formal terms of reference approved by the Board. It has specific authority to determine the appropriate remuneration, benefits and employment conditions for the Chairman of the Company and the executive Directors and regularly reviews the Company's remuneration policies and practices. In determining appropriate remuneration the Committee consults with both internal and external professional advisers.

The Chairman and the Chief Executive are in attendance at Committee meetings except for when their own remuneration is being considered.

Compliance The Company has complied throughout the year ended 31 December 1997 with Section A of the best practice provisions regarding remuneration committees annexed to the Listing Rules of the London Stock Exchange and, in framing its remuneration policy, the Committee has given full consideration to Section B of the best practice provisions regarding remuneration policy, service contracts and compensation.

Company Policy on Executive Directors' Remuneration During the year the Committee reviewed and confirmed its policy on executive Directors' remuneration, which is designed to ensure that the Chairman and executive Directors are rewarded competitively in relation to other companies in order to attract, retain and motivate them to meet the reasonable expectations of shareholders. The principal elements of the policy are as follows:

- Basic salaries will aim to be market competitive with similar positions in other FT-SE 100 companies. Due to the nature of the Rank Group, there is no company which is directly comparable, and therefore pay comparisons of individual positions are made against similar positions across a range of FT-SE 100 companies.
- In addition to basic salary, Directors will be given the opportunity to receive further remuneration based on their contribution to the overall performance of the Company.
- The emphasis of performance linked pay will be on performance over a three to five year period.

- The balance between basic salary, annual bonuses and longer term incentive arrangements will reflect the general practice amongst FT-SE 100 companies.
- Longer term incentives will be paid in Ordinary shares of the Company and will not be pensionable. Annual incentives will be in the form of cash and will only be pensionable for executive Directors who were members of the Executive Committee prior to 1 January 1996.
- Share options will continue to play a part in Rank's remuneration policy. The number and frequency of issue will reflect market competitive practice.
- Executive Directors may draw their full pensions from age 60 and must retire at the age of 62.
- All benefits including pension will be provided on the basis that they are consistent with good practice among FT-SE 100 companies.

Annual Salary and Benefits In accordance with its policy, the Remuneration Committee continues to follow the broad principle that basic salaries should be paid at the median level in comparison with comparable jobs in selected relevant companies. For guidance in determining basic salaries the Committee uses published job matched surveys undertaken by professional remuneration consultants and, in addition, in 1997 the Committee again commissioned its own independent review of the remuneration of the Rank Directors.

Benefits include a car, or cash allowance in lieu, and life, disability and health insurance.

Annual Bonus The annual bonus scheme operated in the year provided for cash bonuses in the range nil to 50% of basic salary; previously the maximum payable had been 45% of basic salary. This change was made following a review of market practice and to ensure consistency of treatment between UK and US members of the Company's Executive Committee. The criteria of the scheme reflected the individual responsibility of the Directors and comprised pre-tax profit before exceptional items, the use of capital in the business and growth in earnings per share before exceptional items.

The Committee considers that the performance conditions applying to annual bonus schemes are relevant, stretching and designed to enhance the business and that this results-driven approach is in the interests of shareholders. The details of bonuses earned in the year are contained in the table on page 5.

Share Option Schemes Rank has operated an executive share option scheme for Directors and other senior managers since 1985, with some 750 executives participating. During the year the Committee again reviewed its policy with regard to executive share options. The Committee concluded that it was appropriate to retain

Report to the Shareholders by the Remuneration Committee

an executive share option scheme but that for the time being no further grants would be made to members of the Executive Committee, which includes all the executive Directors, whilst they participate in the long-term incentive plan (see below). An exception may be made for new recruits to the Executive Committee. This decision will be reviewed periodically in the light of competitive market practice and the appropriateness of Rank's long-term incentive arrangements in total.

With regard to the level of allocation of options and their frequency to those employees below the Executive Committee, the Company's policy is now one of regular annual grants of smaller allocations in line with the recommendations of the Greenbury Report.

Rank has also operated Save As You Earn Option Schemes since 1985 which are generally open to all full time employees and Directors who have completed one year's continuous service. Inland Revenue rules limit the maximum amount which can be saved to £250 per month. Options are granted to acquire the number of shares that the total savings will buy when the savings contracts mature, in accordance with the rules of the scheme.

The Directors' interests in shares or stocks of the Company, including options to purchase Ordinary shares under the terms of the Group's Executive Share Option Schemes ("ESOS") and Share Saving Schemes ("SAYE") are given below:

	31 December 1997					1 January 1997			
	Ordinary shares	Preference shares	ESOS	SAYE	Exercise price (p)	Ordinary shares	Preference shares	ESOS	SAYE
John Garrett	83,500	-	208,840	-	373.50	83,500	-	208,840	-
Sir Denys Henderson	50,000	10,000	-	-	-	50,000	10,000	-	-
Peter Jarvis	10,000	-	-	-	-	5,000	-	-	-
Hugh Jenkins	2,300	10,000	-	-	-	2,300	10,000	-	-
Christine Morin-Postel	-	-	-	-	-	-	-	-	-
Cob Stenham	20,167	-	-	1,008	342.00	15,000	-	-	1,008
	-	-	-	-	-	-	-	-	3,850
	-	-	-	-	-	-	-	-	3,047
Andrew Teare	50,000	20,000	165,118	-	484.50	50,000	20,000	165,118	-
	-	-	195,647	-	436.50	-	-	-	-
	-	-	-	4,928	350.00	-	-	-	-
Nigel Turnbull	36,299	21,000	161,680	-	373.50	29,070	-	161,680	-
	-	-	41,198	-	427.50	-	-	41,198	-
	-	-	-	1,008	342.00	-	-	-	1,008
	-	-	-	2,228	350.00	-	-	-	-
Douglas Yates	39,550	-	208,840	-	373.50	38,962	-	208,840	-
	-	-	-	3,026	342.00	-	-	-	3,026
	-	-	-	1,971	350.00	-	-	-	-

In addition to the above interests, pursuant to the provisions of the Companies Act 1985, each executive Director is deemed to be interested in the Ordinary shares of the Company held by The Rank Group Plc Employee Benefit Trust. As at the date of this report and 31 December 1997, the interest was in a total of 390,000 Ordinary shares and as at 1 January 1997 it was in 145,739 shares and an option over 3,500,000 Ordinary shares. The option over the Ordinary shares was renounced by the trust during the year.

Options to subscribe for Ordinary shares of the Company granted to and exercised by Directors, or which lapsed, in the year ended 31 December 1997 are included in the table below:

	Granted		Lapsed		Exercised		Price per option (p)	Market price at date of exercise (p)
	ESOS	SAYE	ESOS	SAYE	ESOS	SAYE		
Cob Stenham	-	-	-	685	-	3,165	194.78	427.50
	-	-	-	1,045	-	2,002	226.20	427.50
Andrew Teare	195,647	-	-	-	-	-	436.50	-
	-	4,928	-	-	-	-	350.00	-
Nigel Turnbull	-	2,228	-	-	-	-	350.00	-
Douglas Yates	-	1,971	-	-	-	-	350.00	-

Report to the Shareholders by the Remuneration Committee

During the year Cob Stenham realised a gain of £11,396 on exercise of share options.

Except as stated above, no option lapsed during the year. The market price of an ordinary share at 31 December 1997 was 344.5p and the range during the preceding 12 months was 328.75p to 452p. The options outstanding at 31 December 1997 are exercisable at varying dates between 10 February 1998 and 21 February 2007. There were no changes in Directors' interests between 1 January 1998 and the date of this Report. The Company's Register of Directors' interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe for shares.

Long-Term Incentive Plan The Committee continued the long-term incentive plan introduced with effect from January 1995 for executive Directors and members of the Executive Committee. Each participant, including executive Directors, receives an award under the plan if the Company's compound growth in normalised earnings per share exceeds the increase in the UK retail prices index by at least 3% over a performance period of three years. The award consists of a grant of a free option over Rank Ordinary shares; the option can be exercised at the end of the two years following the three year performance period. The value of the shares will be related to a percentage of basic salary. Shares to the value of 10% of salary will be awarded for a 3% compound real growth up to an award of 100% of salary for a 21% compound real growth.

Whilst the executive Directors were again invited to participate in a new three year performance period of the plan in 1997, following participation in the first and second three year performance periods commencing in 1995 and 1996 respectively, there were no entitlements or awards granted or commitments made to any Director under the plan during the year. The Committee has however determined that awards should be granted to executive Directors in respect of the first performance period ended 31 December 1997 as the compounded real growth in normalised earnings per share in the period was 6.5%. Nigel Turnbull and Douglas Yates will receive free options over Rank Ordinary shares to the value of 25% of salary; the number of shares subject to the options will be announced in due course. John Garrett will receive a cash payment of £68,750. Another new three year performance period commenced in January 1998.

Remuneration The remuneration of the Chairman and all Directors in the year is detailed below and overleaf.

Pension entitlements have been disclosed in accordance with the requirements of the Listing Rules of the London Stock Exchange and, in particular, details are given of the transfer value (less Directors' contributions) of the relevant increase in accrued benefit, calculated in accordance with Actuarial Guidance Note GNII but making no deduction for any underfunding, as at the end of the period.

Directors' Emoluments

Chairman and executive Directors

	Basic salary		Benefits		Bonus		Total emoluments excluding pensions	
	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
Angus Crichton-Miller ¹	–	145	2	14	–	39	2	198
Jim Daly ²	–	82	3	9	–	23	3	114
John Garrett	254	217	12	10	50	56	316	283
Michael Gifford ²	–	144	2	12	–	–	2	156
Sir Denys Henderson	250	250	19	18	–	–	269	268
Terry North	–	222	5	8	–	94	5	324
Andrew Teare ³	432	311	16	–	64	75	512	386
Nigel Turnbull	238	214	23	21	35	62	296	297
Douglas Yates	238	214	14	12	35	62	287	288

¹resigned on 11 July 1996 ²retired on 10 April 1996 ³appointed Chief Executive on 10 April 1996

Non-executive Directors' Emoluments

	1997 £000	1996 £000
David Atterton ⁴	7	25
James Harmon ⁵	11	25
Michael Jackaman ⁴	7	25
Peter Jarvis	29	29
Hugh Jenkins	25	25
Christine Morin-Postel ⁶	25	6
Cob Stenham	29	29

⁴retired on 10 April 1997 ⁵resigned on 10 June 1997 ⁶appointed on 1 October 1996

Pension Entitlements**Defined Benefit Arrangements**

	Accrued entitlement at 31.12.97 £000 p.a.	Additional pension earned during year ended 31.12.97 £000 p.a.	Transfer value of increase in pension (less Directors' contributions) £000	Directors' contributions paid during year ended 31.12.97 £000
John Garrett	55	10	121	4
Andrew Teare*	104	2	23	4
Nigel Turnbull	99	12	155	14
Douglas Yates	143	13	163	14

*includes transferred in benefits from previous employer's pension arrangements

Defined Contribution Arrangements

	Contributions paid during year ended 31.12.97 £000
Andrew Teare	237

Pensions and Pensionable Remuneration Each executive Director is a member of Rank's Pension Plan which is a defined benefit scheme and provides, subject to Inland Revenue limits, for a pension at age 60 equal to 1/30th of the individual's pensionable earnings multiplied by his pensionable service, subject to a maximum of twenty years. (Pensionable earnings are defined as PAYE earnings of an individual less the lower earnings limit, broadly equal to the state pension for a single person.)

The amount of pension which can be provided by the Plan is restricted in the cases of Messrs. Garrett and Teare as they joined the Company after 31 May 1989 and are thus subject to the limit imposed by the Finance Act 1989 on that part of an employee's pension which can be funded through an approved scheme. The current limit is a pension on a salary of £84,000. The Company has given a promise to John Garrett that his pension shall be as if this limit did not apply and the Company will be responsible for making payment of any pension in excess of the approved maximum. In the case of Andrew Teare, no such promise has been given but the Company has agreed instead to pay an amount equal to 55% of his basic salary into an unapproved retirement benefits scheme, which is a defined contribution scheme.

The policy on pensionable salary was reviewed by the Committee in 1996 and it was decided that annual bonus payments would not be pensionable for any executive Directors appointed in or after 1996. Accordingly, annual bonus payments received by Andrew Teare are not pensionable. Annual bonus payments received by John Garrett, Nigel Turnbull and Douglas Yates remain pensionable. The cash values of other benefits in kind are not included within pensionable scheme earnings.

Directors' Service Contracts The Chairman and the executive Directors have service contracts with the Company, but the non-executive Directors do not.

The Chairman has a service contract for an initial term expiring on 28 February 1998. The Chairman has agreed to enter into a new contract with effect from 1 March 1998, with a one year notice period.

The executive Directors have service contracts with notice periods of two years; they are required to retire at age 62.

The Committee considers such lengths of notice periods to be appropriate given competitive practice. In reaching this view the Committee has taken into account the views of external advisers. Rank operates in a very competitive environment and in order to attract and retain key people at senior levels, including executive Directors, the Committee considers that less than a two year period of notice would give inadequate security to the individual concerned, to the Board and to shareholders.

Any Director leaving service at the request of the Company (other than for gross misconduct) will be provided with compensation related to age, service and the circumstances relating to his departure. The duty to mitigate will also be taken into consideration when determining any severance payment. These principles were adhered to by the Committee in determining the compensation payable to John Garrett in respect of his departure from the Company in the current year. It was agreed by the Committee that he should receive a gross payment of £457,000 payable in 12 monthly instalments, and be credited with an additional year's service for pension purposes.

Details of the service contracts of the Directors proposed for election at the forthcoming Annual General Meeting are contained in the Directors' Report on pages 1 and 2.

Report to the Shareholders by the Remuneration Committee

Non-executive Directors The remuneration of non-executive Directors is determined by the Board. The remuneration consists of annual fees of £25,000 and additional fees of £4,000 for chairing the Audit and Remuneration Committees.

The Chairman and the non-executive Directors do not participate in the annual bonus scheme, any company pension scheme, the Executive Share Option Scheme or the long-term incentive plan.

On behalf of the Board

Peter Jarvis

Chairman, Remuneration Committee

20 February 1998

Code of Best Practice Throughout the financial year the Group has complied with all of the requirements of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance (the "Cadbury Code").

Internal financial control The Directors acknowledge that they are responsible for the Group's system of internal financial control, which is designed to provide reasonable but not absolute assurance against material misstatement or loss.

Considerable importance is placed on maintaining a strong control environment. In particular, there is a simple organisational structure with clearly drawn lines of accountability and delegation of authority; adherence to specified codes of conduct is required at all times, and the Board actively promotes a culture of quality and integrity. Risks are identified and appraised both formally, through the annual process of preparing business plans and budgets, and informally through close monitoring of operations. Financial results and various key business statistics are reported regularly throughout the year and variances from

approved plans and budgets are monitored and followed up vigorously. Detailed control procedures exist throughout the Group's operations and compliance is monitored by management, the Group's internal auditors and, to the extent they consider necessary to support their audit report, the external auditors.

On behalf of the Board, the Audit Committee has reviewed the effectiveness of the system of internal financial controls during the year ended 31 December 1997. This has included consideration of a formal Group-wide risk assessment by the Board, the results of a controls self-certification exercise throughout the Group, and reports from the Group's internal and external auditors.

Going concern After reviewing the Group's budget for 1998 and its medium term plans, the Directors are confident that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. They have therefore continued to adopt the going concern basis in preparing the accounts.

Report by the Auditors to the Directors of The Rank Group Plc on Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed your statement above concerning the Group's compliance with the paragraphs of the Cadbury Code specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Opinion In our opinion your statements above on internal financial control and going concern have provided the disclosures required by the Listing Rules referred to above and is consistent with the information which came to our attention as a result of our audit work on the accounts.

In our opinion, based on enquiry of certain Directors and officers of the Company and examination of relevant documents, your statement appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).


Price Waterhouse 
Chartered Accountants
London

20 February 1998

Operating and Financial Review

	First half			Second half			Full year		
	1997 £m	1996 £m	%	1997 £m	1996 £m	%	1997 £m	1996 £m	%
Turnover	■	940	(8.9)	1,156	1,144	1.0	2,012	2,084	(3.5)
Continuing operations	853	817	4.4	1,156	1,038	11.4	2,009	1,855	8.3
Operating profit before exceptional items	■	93	(3.2)	220	197	11.7	310	290	6.9
Continuing operations	90	92	(2.2)	220	188	17.0	310	280	10.7
Income from associates	7	6	16.7	13	8	62.5	■	14	42.9
Income from Rank Xerox	20	24	(16.7)	-	25	n/a	20	49	(59.2)
Interest	(30)	(24)	(25.0)	(17)	(32)	46.9	(47)	(56)	16.1
Profit before tax and exceptional items	■	99	(12.1)	216	198	9.1	303	297	2.0
Profit (loss) after tax and exceptional items	67	111	(39.6)	129	(142)	n/a	196	(31)	n/a
Earnings per share before exceptional items (pence)	6.9	7.2	(4.2)	19.6	16.9	16.0	26.5	24.1	10.0

Summary of results Turnover from continuing operations grew by 8.3% or by 11.2% at constant exchange rates with increases in each of Rank's Divisions. An analysis of results by Division is shown on pages 24 and 25.

Operating profit before exceptional items grew by 6.9% to £310m. This included an increase of over 10% from continuing operations, an increase of 13.2% at constant exchange rates to £317m.

Despite the adverse impact of currency, turnover from continuing businesses accelerated in the second half of 1997 with an increase of 8.0% in the third quarter, and 15.6% in the fourth quarter, with corresponding increases in operating profit of 13.1% and 24.2% respectively. The increase in turnover was in all businesses except US Holidays. Each Division contributed to the improved profit performance, with the largest benefit coming from Deluxe Entertainment Services and Leisure.

Profit before tax and exceptional items rose by only 2% to £303m due to the lower dividend from the Rank Xerox

investment which was sold on 30 June 1997, offset by a reduction in interest. At constant exchange rates, profit before tax would be £310m.

Earnings per share before exceptionals increased by 10% to 26.5p in 1997 as a result of the strong improvement in operating profit and a reduced tax charge. The weighted average number of shares in issue in 1997 reduced by 2.5% arising from the 10% share repurchase programme.

A final dividend of 12.75p per Ordinary share, making 18.00p for the year, is proposed. This is an increase of 5.9% in line with the policy of progressive increases whilst improving dividend cover.

Earnings for the year were £173m or 21.2p per share against a loss of £55m or 6.6p in 1996. The 1996 earnings were affected by a net exceptional charge of £256m; in 1997 the charge was £43m.

Divisions All references to operating profit refer to operating profit before exceptional items unless otherwise stated.

Deluxe Entertainment Services

(formerly Film and Entertainment Services)

	First half			Second half			Full year		
	1997 £m	1996 £m	%	1997 £m	1996 £m	%	1997 £m	1996 £m	%
Turnover	251	265	(5)	375	327	15	■	592	■
Operating profit	20	29	(31)	68	51	33	88	80	10

The Division had another good year and continued to benefit from the range and number of films and videos released by the Hollywood studios as well as from sustained improvements in productivity. The reduction in turnover and operating profit in the first half was entirely as a result of the shortfall in video duplication volumes. However, volume increases in the second half of the year, with releases such as *Men in Black*, *Star Wars Trilogy* and *Lost World* meant that volume increased by 14% for the full year. Profit from the US video business was 5% lower at constant exchange rates,

but a strong performance from UK and European operations enabled the video duplication business to equal its record 1996 performance even after the adverse effect of currency translation.

Work on re-engineering within the business to improve productivity continues although the major benefit will not be seen until 1999. However, action has already been taken to reduce the level of fixed costs with the announced closure at the end of March 1998 of the Garden Grove video

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duplication plant in California. Production will be moved to the existing plants at North Little Rock, Arkansas and Northbrook, Illinois.

The film laboratories improved results by 31% with major improvements being achieved in the UK and Hollywood, where the productivity benefit of restructuring early in the year showed through in results.

Volumes increased by 11% as the Hollywood studios

continued to order more prints of each film, driven by the continuing growth in the number of cinema screens and the trend towards the immediate wide release of films.

Pinewood Studios continued to perform well in 1997 and made use of occasional spare capacity to complete its stage refurbishment programme. Since the year end planning permission has been obtained to expand the stage and support facilities at the Studios by 30%.

Hard Rock	First half			Second half			Full year		
	1997 £m	1996 £m	%	1997 £m	1996 £m	%	1997 £m	1996 £m	%
Turnover	111	78	40	126	116	9	235	194	21
Operating profit	20	19	5	27	27	-	47	46	2

At constant currency, turnover for the year was up 28% and operating profit up 7%. Growth in Hard Rock during the first half of the year was driven by the acquisitions in 1996 of Peter Morton's Hard Rock America and Hard Rock Canada. New company owned cafes opened during the second half of the year in Baltimore, Sacramento, Memphis and Barcelona.

Underlying cafe turnover increased 4% in the third quarter and 12% in the fourth quarter, with growth from new openings offsetting the decline elsewhere. There was an improving trend from food and beverage revenue in the fourth quarter, but merchandise sales continued to suffer from increased competition. Of the operating profit shortfall from cafes opened prior to 1997, some £3.5m was in Orlando and New York largely due to construction work. New York was affected by expansion and refurbishment which will be completed in the first quarter of 1998, but the Orlando cafe problem will continue until the new cafe opens in December 1998. Additionally some disruption of the London cafe is expected in 1998 due to construction work on the building.

During the past year Hard Rock has dedicated significant resources to the consolidation of the worldwide brand, integration of the acquisitions and the development of an enhanced management and operational infrastructure. This will enable an acceleration of the roll-out of new company owned cafes, the development of the new National Basketball Association (NBA) restaurants and the creation of brand extensions which further leverage the Hard Rock name.

For the first time in the history of Hard Rock Cafe, the menu

is standardised worldwide and uniform operating standards have been implemented. All owned cafes now operate with state of the art point of sales systems, the merchandise has been redesigned, new marketing and sales initiatives have been launched and ■ extensive maintenance and refurbishment programme of the acquired cafes has been substantially completed.

Since the end of the year ■ further brand extension deal has been signed with Northland Beverage Company, an American beverage and marketing corporation, which will distribute new, branded Hard Rock beers in the USA commencing in March and internationally later in 1998.

Hard Rock also completed a global agreement for the development of Hard Rock Hotels and Resorts with Leisure Ventures Pte Ltd. Hard Rock received the initial licensing fee in 1997 and will receive opening and ongoing royalty fees on restaurant, merchandise and hotel revenues. The second half profit included £6m from this transaction. The first resort is currently under construction in Bali and will open in May 1998. In a separate venture with Universal and Loews Hotels, a Hard Rock Hotel and Beach Club will open in Universal Studios Resort in late 2000. These brand leverage opportunities require little investment by Hard Rock.

On 2 February 1998, Hard Rock announced a global agreement with the NBA to create ■ new generation of themed restaurants. Ten restaurants, at a cost of £53m (\$88m), will be built over the next three years with the first unit set to open in the first quarter of 1999 in the prime location outside the main entrance to the new Islands of Adventure Theme Park at Universal Studios Resort.

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Holidays	First half			Second half			Full year		
	1997 £m	1996 £m	%	1997 £m	1996 £m	%	1997 £m	1996 £m	%
Turnover									
UK Holidays	180	153	5	270	248	13	450	401	9
US Holidays	110	47	(17)	31	48	(35)	141	95	(26)
	290	200	(1)	310	296	5	600	496	3
Operating profit									
UK Holidays	■	3	100	65	57	14	71	60	18
US Holidays	■	3	(33)	(1)	3	n/a	1	6	(83)
	8	6	33	■	60	7	72	66	9

Rank's UK holiday businesses performed well and improved profit by 18% to £71m on turnover which increased by 9%. Haven UK achieved record results helped by strong caravan sales. In addition, Haven Europe's performance continued to improve as bookings increased by 8% aided by the strength of sterling. Butlin's results were in line with last year despite the considerable building programme which started in the last quarter. Warner's turnover rose by 25% reflecting the unique appeal of the "Just for Adults" brand and increased capacity with the opening of two new hotels at Littlecote and Nidd Hall during the year; profit increased by over 80%, exceeding £10m for the first time.

Oasis, which opened to the public in June, contributed some £20m to full year turnover but made an initial loss of under £1m for the year and ■ small contribution to profit in the second half.

In September 1997, Rank announced its intention to relaunch and reposition the Butlin's brand with ■ £139m, two year investment programme to transform Butlin's

Skegness, Minehead and Bognor Regis centres into Family Entertainment Resorts. They will have new and improved accommodation, entertainment and all weather facilities under a Skyline Pavilion the size of the football pitch at Wembley Stadium. This programme will be completed by Easter 1999. The other two Butlin's centres at Ayr and Pwllheli will be converted to Haven parks.

The Division has been restructured and the management and service functions have been centralised in a new building at Hemel Hempstead.

In the US, the Resorts business had a difficult year. A new management team was installed whose focus is on reducing overheads, redefining the business and developing marketing initiatives. The emphasis going forward is to reduce capital employed and to improve profitability and returns. The results for the year were adversely affected by selling restrictions, which have since been removed, in its important New York market.

Leisure	First half			Second half			Full year		
	1997 £m	1996 £m	%	1997 £m	1996 £m	%	1997 £m	1996 £m	%
Turnover									
Gaming	182	183	(1)	201	189	6	383	372	3
Entertainment	112	82	37	144	102	41	256	184	39
	294	265	11	345	291	19	639	556	15
Operating profit									
Gaming	25	27	(7)	32	29	10	57	56	2
Entertainment	22	15	47	28	21	33	50	36	39
	47	42	12	■	50	20	107	92	16

Gaming Mecca Bingo had ■ good year with turnover up 15% to £214m and profit up 6% to £36m (UK admissions improved by 3% and turnover per head by 9%). This was after charging £3m for ■ television and media advertising programme in the autumn and for ■ management restructuring, both of which are expected to bring benefits in 1998. If these costs were excluded the profit increase would have been 15%. This was helped by a full year's contribution of £9m from the 16 openings in 1996. 11 sites have been opened in 1997 bringing a total of 51 new style clubs in the

UK estate of 135. It is planned to open a further eight clubs during 1998.

In Casinos, profit for the year was flat. There was ■ lower contribution from the London clubs where ■ 1% growth in handle was eroded by a lower table win percentage at the more volatile end of the market. The shortfall in London was offset by ■ significant improvement in the performance of the provincial casinos where handle per head increased 4% and comparable admissions rose 8% in the second half of

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the year (4% full year), following the removal of admission and guest charges in June. Income from slot machines and bars benefited from changes in regulations and pricing policy. The relocation of the Southampton casino into Rank's new multi-leisure centre has been a major success.

The amusement machine business continued to operate efficiently whilst providing a cost effective service throughout Rank's businesses. Turnover was lower due to the disposal of the inland amusement centres in 1996, although profits were unchanged.

Entertainment Odeon performed particularly well with turnover increasing by over 30% and operating profit by over 25%. Admissions rose by 24% helped by a 14% increase in screens. Admission prices improved by 4% and retail spend was substantially increased. Extremely strong film product including *The Full Monty* contributed to the improvement.

The nightclubs, Jaks live music venues and multi-leisure centre business also performed strongly with turnover up 18% and profit up over 20%. Nightclub admissions and spend per head increased by 2% and 5%, respectively.

The new Jaks venues and the multi-leisure centre at Southampton, which has already exceeded our return on capital target, were notable performers.

Tom Cobleigh has been integrated into the leisure portfolio and has expanded rapidly during the year with 20 pubs opening, mainly in the last quarter, bringing the total to 73. Of the new openings, two were on our multi-leisure sites and one was at the Oasis holiday village. Although new openings have achieved higher average sales per pub in part due to the larger scale of the new outlets, investment by competitors has resulted in a reduction in like for like sales in the older estate. Licensing delays held back new openings and together with the cost of the infrastructure necessary to support the aggressive development programme, this has resulted in a lower than expected profit of £6m for the year.

Other Other unallocated corporate and property costs were similar to last year, and the reduction is attributable to a small net profit on disposal of properties and businesses.

Discontinued The discontinued activity in 1997 was Rank Film Distributors.

Non-operating and exceptional items

	First half		Second half		Full year	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Exceptional losses	(2)	45	(41)	(277)	(43)	(232)

In the first half of 1997 Rank disposed of peripheral businesses, mainly Rank Film Distributors, at a profit of £34m and provided for an estimated loss on the sale of its investment in Rank Xerox at 30 June 1997 of £36m. Arising

from this sale a number of commercial contracts have had to be renegotiated as a result of change of control clauses in those contracts. These and other costs were charged in the second half as incurred.

Rank Xerox Sale

	£m
Gross disposal proceeds	111
1997 dividend entitlement	(20)
Discount on deferred proceeds (net of interest receivable)	(27)
Costs of contract renegotiations and the transaction	(37)
	856
Book value of investment	930
Non-operating loss on disposal	(74)

Interest (pre-exceptional)

	First half			Second half			Full year		
	1997 £m	1996 £m	%	1997 £m	1996 £m	%	1997 £m	1996 £m	%
Interest incurred	(30)	(24)		(32)	(32)		(62)	(56)	
Imputed interest	-	-		15*	-		15*	-	
Net interest	(30)	(24)	(25)	(17)	(32)	47	(47)	(56)	16
* The imputed interest is in respect of the outstanding Rank Xerox proceeds.									
Average (borrowings)	(1,056)	(565)		(931)	(974)		(985)	(747)	
Outstanding Rank Xerox proceeds				440	-		440	-	

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Net interest was £47m for the year compared with £56m in 1996. In the first half the increase was due to higher average debt levels. On 30 June Rank received £500m in cash from Xerox in respect of the sale of its investment in Rank Xerox. During the second half this cash was reinvested in the businesses and the £291m share repurchase. There was a reduction in average interest rates during the year; the

underlying average rate paid on borrowings was 6.9% compared with 7.5% in 1996. Interest cover, expressed as the ratio of profit before interest, tax and exceptional items to net interest, was 7.4 times compared with 6.3 in 1996. The fixed charge cover, excluding lease commitments, was 5.0 times compared with 4.1 in 1996.

Universal Studios Resort

Rank Share	First half			Second half			Full year		
	1997 £m	1996 £m	%	1997 £m	1996 £m	%	1997 £m	1996 £m	%
Turnover	55	55	—	57	56	2	112	111	1
Operating profit	10	9	11	15	10	50	25	19	32
Net interest	(3)	(3)	—	(2)	(2)	—	(5)	(5)	—
Profit before tax	7	6	17	13	■	63	20	14	43

Universal Studios Florida had a good year and turnover increased by 6% in local currency driven by an overall increase of 7% in per capita spends. Rank's share of profit before tax increased to £20m; £3m of this increase was a franchise fee for licensing of rights to the Terminator 2 3-D ride to Universal Studios Hollywood. It is anticipated that future franchise fees will be received from the development of Universal Studios Japan.

Exchange rates The net translation effect of changes in foreign currencies was to reduce profit before tax and exceptional items by £7m. The principal exchange rate affecting Rank's results is the US dollar/sterling exchange rate, which moved from an average rate for 1996 of 1.57 to 1.64 in 1997. At the year end, the rate was 1.65 compared with 1.70 at the end of 1996.

Taxation Excluding exceptional items, the tax rate on the Rank managed businesses was 23% versus 26% in 1996. As a result of the scrip dividend alternative proposed for the final dividend (outlined below), Advance Corporation Tax (ACT) of £5m has not been written off in 1997, a benefit of 2% on the Rank businesses' tax rate.

Earnings Earnings per share before exceptional items in 1997 were 26.5p compared with 24.1p in 1996. After exceptional items, earnings per share were 21.2p in 1997 (1996 loss per share of 6.6p).

Dividend The proposed final dividend of 12.75p per Ordinary share, together with the interim dividend of 5.25p per Ordinary share already paid, makes a total for the year of 18.00p per Ordinary share, an increase of 5.9% over 1996. The total dividend for 1997 will be covered 1.5 times (1996 1.4) by earnings before exceptional items. When recommending the final dividend, the Board took into account the underlying progress in the business and the outlook for the future.

Enhanced scrip alternative dividend Rank proposes to offer a scrip alternative to the 1997 final dividend subject to shareholder approval. It is proposed that the scrip

alternative will represent a 9.8% enhancement to the cash dividend, calculated on an average share price over five dealing days commencing on 17 April 1998. The Company will benefit by not having to pay ACT on any scrip dividend. Any ACT paid by the Company is unlikely to be recoverable in the foreseeable future.

Geographical contributions UK operations contributed 58% of turnover of continuing operations and 59% of operating profit before exceptional items. This compared to 56% and 54% in 1996. North America contributed 37% of turnover and 34% of profit before exceptional items. The Rest of the World, which includes contributions from licence and royalty fees of Hard Rock, contributed 5% and 7%.

Cash flow The net cash inflow from operating activities was £443m compared with £317m for 1996. The increase of £126m is explained by the year on year change in working capital movements of £130m, which primarily arose in Deluxe, US holidays and the Gaming businesses.

Cash received in 1997 from Universal Studios Resort was £33m, up from £10m in 1996.

Higher tax payments in 1997 arose from the increased UK mainstream corporation tax charge in 1996. The increased 1996 charge resulted from actions taken to protect the Group's tax position in the reorganisation which took place in that year.

Investment expenditure decreased to £519m (1996 £928m) and disposals of assets realised £548m (1996 £261m) as described below.

Overall, there was a cash inflow before use of liquid resources and financing for the year of £217m compared with an outflow of £498m in 1996.

During the year Rank received £5m from the issue of shares but, following receipt of the £500m cash from the sale of its Rank Xerox interest, Rank repurchased 83.7m shares at a cost of £291m. Consequently net debt increased by £82m in 1997 compared with an increase of £504m in 1996.

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Investment expenditure Rank has continued to invest to expand its leisure and entertainment businesses. In 1997 investment expenditure, comprising capital expenditure, leased assets and acquisitions including debt, totalled £519m compared with £928m in 1996.

Capital expenditure Capital expenditure, including leased assets, was reduced to £417m. Of this, over half arose in the

Leisure Division where Rank continued to invest in new style bingo clubs, multiplex cinemas, multi-leisure centres and Tom Cobleigh pubs. Other significant areas of expansion were four new Hard Rock cafes, completion of construction of the first Oasis Forest Holiday Village, which opened in June, and two new Warner holiday hotel properties, Littlecote and Nidd Hall. An analysis of capital expenditure by Division is shown below.

Capital expenditure by Division	1997 £m	1996 £m
Deluxe Entertainment Services	36	73
Hard Rock	31	17
Holidays	136	120
Leisure	214	215
Other/discontinued	-	29
	417	454
Universal Studios Resort and Universal Studios Japan	59	14
	476	468

In addition to Rank's cash investment in Universal Studios Resort in 1997, £103m was provided by Rank's share of the associates' own borrowings.

Rank's cash investment in Universal is budgeted to increase to some £130m in 1998 ahead of the Florida park opening in 1999.

Acquisitions Acquisitions, including debt, totalled £43m compared with £460m in 1996. There were two main acquisitions during the year. In March, Rank acquired the Hard Rock cafes and brand rights for the Caribbean and Argentina and a logistical distribution business for video duplication in North America.

Disposals The disposals of Rank Xerox, Rank Film Distributors and other peripheral businesses generated £530m of cash in 1997, with two further tranches of £220m each from the Rank Xerox sale to be received in 1998 and 1999.

Return ■ capital Rank's investment criteria have been reviewed and the more stringent target set of 15% pre-tax return on capital in the second full year of operation. Where appropriate, management performance is now also appraised on the basis of use of capital, in addition to other performance benchmarks. The table below shows return on capital employed, defined as the ratio of operating profit before exceptional items to capital employed (which includes goodwill).

Return ■ capital	Return on net assets including goodwill		Return on net assets	
	1997 %	1996 %	1997 %	1996 %
Deluxe Entertainment Services	18.1	16.4	32.1	27.0
Hard Rock	7.0	7.4	40.5	56.8
Holidays				
UK	10.9	11.0	11.5	11.7
US	0.4	2.6	0.5	3.0
	8.1	8.5	8.7	9.2
Leisure				
Gaming	8.8	9.1	11.6	12.2
Entertaining	11.6	10.6	13.6	13.0
	9.9	9.6	12.4	12.5
Total continuing operations	9.9	9.9	14.9	15.4

Borrowings At 31 December 1997, net debt was £1,012m compared with £930m at 31 December 1996. The increase was the result of the continuing investment expenditure and the £291m share repurchase programme exceeding cash generated from operations and disposals. Just over 60% of net debt was denominated in US dollars and most of the balance in sterling. At 1996 year end exchange rates, net debt would have been some £9m lower.

Net debt as a percentage of shareholders' funds was 67% compared with 52% at 31 December 1996. The 1997 net debt excludes the future reduction of £440m receivable from Xerox.

As part of the US\$1.5bn bank facilities arranged for the expansion of Universal Studios Resort, Rank has guaranteed US\$600m or £363m of facilities. Of the guaranteed facilities, US\$267m or £161m had been drawn down at 31 December 1997. The drawn amount is shown as ■ contingent liability in the accounts. Rank's share of drawn, unguaranteed debt is US\$146m or £88m.

At the end of the year, the Group had committed facilities available amounting to £1,900m. Only £66m of these facilities mature by December 1998 and the balance is adequate to meet Rank's immediate requirements. The Group actively managed its debt in the year with ■ view to increasing the length of maturity by accessing alternative markets. US\$400m has been raised at a seven year weighted average cost of under 7% for maturities ranging between seven and 20 years. US\$200m of this was raised after 31 December 1997.

The Company's Articles of Association provide that borrowings shall not exceed one and ■ half times the adjusted share capital and consolidated reserves of Rank. As at 31 December 1997, this limit was £2,277m compared with relevant borrowings of £1,012m.

Treasury policy Rank seeks to minimise the impact of movements in exchange rates on its purchases and sales by buying or selling forward ■ portion of its estimated net currency requirements up to a year ahead, or longer where a longer external commitment exists. Balance sheet exposure in respect of investments in overseas subsidiaries is minimised by hedging the underlying asset position with currency borrowings.

The exposure of earnings to movements in interest rates is managed by fixing rates on a portion of Rank's borrowings. At the year end just over 50% of borrowings were at rates fixed for more than one year.

The Directors review and agree the broad policies and guidelines for all significant areas of treasury activity,

including key ratios, funding and risk management. Implementation of these policies is carried out by the Group treasury department, under close management direction. The treasury function is not operated as ■ profit centre.

Rank uses off-balance sheet financial instruments, including foreign exchange forward contracts and interest rate swaps, in its management of exchange rate and interest rate exposures. Off-balance sheet financial instruments are only used to hedge underlying commercial exposures. Therefore while these instruments are subject to the risk of loss from changes in exchange rates and interest rates, such losses would be offset by gains in the related exposures. Rank does not speculate in derivative financial instruments. Realised and unrealised gains and losses on foreign exchange forward contracts that hedge firm third party commitments are recognised in income in the same period as the underlying transaction. Net interest paid or received on interest rate swap contracts is included in net interest expense.

Risk management Rank's financial exposure to risk is reduced by its geographical spread, the wide range of products and services offered, its treasury policies and insurance. As ■ leisure and entertainment group, Rank is primarily affected by levels of consumer spending and trends in leisure activities. Rank dedicates significant resources to product innovation, market research and marketing activity to stimulate demand continually and to explore new opportunities. Diligent cash management is also an important feature of its business.

Rank carries catastrophe insurance, but self-insures at lower levels of exposure. Overall, considerable emphasis is placed on the need for strict internal financial controls in all Rank's operations and these are regularly reviewed by its internal auditors.

During 1997, Rank has surveyed and identified those areas where its systems and applications will be affected by the Year 2000 problem. As a result of the significant capital investment made, starting in 1996, on improving and replacing systems to support the way Rank now operates within its Divisions, very few problem areas have been identified and there is an action plan to rectify these over the next 18 months.

Shareholders' funds Shareholders' funds were £1,518m at the end of 1997 compared with £1,796m at the end of 1996. The reduction in 1997 is the result of a share buyback of 10% of the Company's share capital.

Net assets per Ordinary share at 31 December 1997 were 172p, compared with 189p at the end of 1996.

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Year ended	31 December 1997	31 December 1996	31 December 1995 Proforma	31 December 1994 Proforma	31 October 1993 Proforma
	£m	£m	£m	£m	£m
Turnover					
Current operations	2,009	1,838	1,640	1,532	1,366
Former operations	3	246	279	303	408
	2,012	2,084	1,919	1,835	1,774
Operating profit before exceptional items					
Current operations	310	278	248	240	204
Former operations	-	12	■	(1)	(3)
	310	290	256	239	201
Associates (excluding Rank Xerox)	■	14	■	10	11
Interest excluding exceptional items	(47)	(56)	(44)	(74)	(88)
Profit before Rank Xerox, tax and exceptionals	283	248	221	175	124
Rank Xerox before exceptional items	20	49	187	210	151
Profit before tax and exceptional items	303	297	408	385	275
Exceptional items	(43)	(232)	236	(59)	65
Profit before tax	110	65	644	326	340
Earnings per Ordinary share before exceptional items accounting for Rank Xerox on a dividend basis					
- Rank businesses	24.0p	19.4p	18.1p	13.0p	8.0p
- Rank Xerox	2.5p	4.7p	6.0p	7.1p	8.3p
- Total	26.5p	24.1p	24.1p	20.1p	16.3p
Dividend per Ordinary share (net)	18.00p	17.00p	15.75p	13.25p	12.16p

Five year record The table above shows the key trends in Rank's results, excluding Rank Xerox, over the period 1 November 1992 to 31 December 1997. Turnover in current operations increased at a compound annual growth rate of 10% and operating profit before exceptional items increased by 11%. Profit before tax in the Rank businesses, excluding exceptional items, was £283m in 1997 compared with £124m in 1993, representing a compound annual growth rate of 23%.

Earnings per share before exceptional items in the Rank businesses in 1997 were 24.0p compared with 8.0p in 1993,

a compound annual increase of over 30%. Total earnings per share before exceptional items in 1997 were 26.5p compared with 16.3p in 1993, accounting for Rank Xerox on a dividend basis, which represents a compound annual increase of 13%.

The net dividend per Ordinary share of 18.00p in 1997 compared with 12.16p in 1993, a compound average annual growth rate of 10%.

Directors' Responsibilities in relation to Accounts

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts the Directors are required to select appropriate accounting policies and apply them consistently, to make reasonable and prudent judgments and estimates, and to state that all accounting standards which they consider to be applicable have been followed, save as disclosed in the notes to the accounts. The Directors are also required to prepare the accounts on the going concern basis unless it is inappropriate to do so.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors also have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors to the Members of The Rank Group Plc

We have audited the accounts set out on pages 18 to 41, which have been prepared under the historical cost convention and the accounting policies set out on pages 22 and 23, and the information set out in the tables on pages 3 to 7 of the Report of the Remuneration Committee.


Respective responsibilities of Directors and Auditors

As described above, the Company's Directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse
Price Waterhouse 
Chartered Accountants
Registered Auditors
London

20 February 1998

Group Profit and Loss Account for the year ended 31 December 1997

	Note	Before exceptional items £m	1997 Exceptional items £m	Total £m	Before exceptional items £m	1996 Exceptional items £m	Total £m
Turnover							
Continuing operations		1,979	-	1,979	1,855	-	1,855
Acquisitions		30	-	30	-	-	-
	1,2	2,009	-	2,009	1,855	-	1,855
Discontinued operations	1,2	3	-	■	229	-	229
	1,2	2,012	-	2,012	2,084	-	2,084
Operating profit							
Continuing operations		309	-	■	280	(195)	85
Acquisitions		1	-	1	-	-	-
	1,2	310	-	310	280	(195)	85
Discontinued operations	1,2	-	-	-	10	18	28
	1,2	310	-	310	290	(177)	113
Non-operating items							
(Loss) on disposal of continuing operations' properties	3	-	-	-	-	(11)	(11)
(Loss) on disposal of continuing operations	3	-	-	-	-	(33)	(33)
(Loss) on disposal of investment	3	-	(74)	(74)	-	-	-
Profit (loss) on disposal of discontinued operations	3	-	31	31	-	(18)	(18)
Income from interests in associated undertakings							
Universal Studios Florida	13	■	-	■	14	-	14
Income from other fixed asset investment							
Rank Xerox dividends receivable		■	-	20	49	-	49
Profit before interest		350	(43)	307	353	(239)	114
Net interest payable and other similar charges	4	(47)	-	(47)	(56)	7	(49)
Profit ■■ ordinary activities before tax		303	(43)	260	297	(232)	65
Tax on profit on ordinary activities	5	(64)	-	(64)	(72)	(24)	(96)
Profit (loss) ■■ ordinary activities after tax		239	(43)	196	225	(256)	(31)
Minority interests							
(including non-equity interests)	23	(3)	-	(3)	(3)	-	(3)
Profit (loss) for the financial year		236	(43)	193	222	(256)	(34)
Dividends and other appropriations							
Preference	7	(20)	-	(20)	(21)	-	(21)
Ordinary	7	(137)	-	(137)	(142)	-	(142)
Transfer to (from) reserves	22	■	(43)	36	59	(256)	(197)
Earnings (loss) per Ordinary share	8	26.5p	(5.3)p	21.2p	24.1p	(30.7)p	(6.6)p

Balance Sheets at 31 December 1997

	Note	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
Fixed assets					
Tangible assets	9	1,863	1,574	-	-
Investments	11	252	1,124	2,381	605
		2,115	2,698	2,381	605
Current assets					
Stocks	15	■	124	-	-
Debtors (amounts falling due within one year)	16	■	312	237	-
Debtors (amounts falling due after more than one year)	16	421	235	234	27
Investments	17	16	19	-	-
Cash and deposits	17	90	58	-	-
		1,166	748	471	27
Creditors (amounts falling due within one year)					
Loan capital and borrowings	18	(75)	(118)	-	-
Other	19	(532)	(536)	(254)	(136)
		(607)	(654)	(254)	(136)
Net current assets (liabilities)		559	94	217	(109)
Total assets less current liabilities		2,674	2,792	2,598	496
Creditors (amounts falling due after more than one year)					
Loan capital and borrowings	18	(1,043)	(889)	-	-
Other	19	(43)	(18)	-	-
		(1,086)	(907)	-	-
Provisions for liabilities and charges	20	(43)	(63)	-	-
		1,545	1,822	2,598	496
Capital and reserves					
Called up share capital	22	121	129	121	129
Share premium account	22	■	1	■	1
Capital redemption reserve	22	■	-	8	-
Revaluation reserves	22	-	498	-	-
Other reserves	22	1,383	1,168	2,463	366
Shareholders' funds		1,518	1,796	2,598	496
Equity interests		1,302	1,582	2,382	282
Non-equity interests		216	214	216	214
Minority interests (including non-equity interests)	23	27	26	-	-
		1,545	1,822	2,598	496

These accounts were approved by the Board on 20 February 1998 and signed on its behalf by:

Sir Denys Henderson Chairman

Nigel Turnbull Finance Director

Denys H. Henderson
Nigel Turnbull

Group Cash Flow Statement for the year ended 31 December 1997

	Note	1997 £m	1996 £m
Net cash inflow from operating activities	24	317	317
Returns on investment and servicing of finance			
Interest received		10	16
Interest paid		(85)	(75)
Distributions from associated undertakings		10	10
Distributions from investments		11	41
Dividends paid to preference shareholders		(18)	(19)
Dividends paid to minority shareholders in subsidiary undertakings		(2)	(2)
		(33)	(29)
Taxation paid (net)		(86)	(46)
Capital expenditure			
Purchase of tangible fixed assets		(411)	(444)
Purchase of investments		(9)	-
Investment in associated undertakings		(50)	(14)
Purchase of own shares		(1)	(1)
Sale of fixed assets and assets held for disposal		11	10
		(453)	(449)
Acquisitions and disposals			
Purchase of subsidiaries and minorities	25	(43)	(409)
Sale of businesses and investments	26	530	251
		487	(158)
Ordinary dividends paid		(141)	(133)
Cash inflow (outflow) before of liquid resources and financing		217	(498)
Management of liquid resources	27	1	(2)
Financing			
Issue of Ordinary share capital		5	10
Repurchase of Ordinary share capital		(291)	-
Debt due within one year:			
(repayment) drawdown of short-term loans and borrowings		(100)	32
Debt due after more than one year:			
new sterling syndicated facility		11	189
new US dollar syndicated facility		-	188
new US dollar bond		113	-
net movements on other long-term facilities		11	41
repayment of yen facilities		-	(132)
repayment of acquired borrowings		-	(37)
Capital element of finance lease rental payments		(5)	(22)
Increase in debt and lease financing	27, 28	111	259
Increase (decrease) in cash	27, 28	30	(231)

Group Recognised Gains and Losses for the year ended 31 December 1997

	1997 £m	1996 £m
Profit (loss) for the financial year	193	(34)
Surplus on revaluation of investment in Rank Xerox	–	498
Currency translation differences on foreign currency net investments	2	(28)
	2	470
Total recognised gains and losses for the year	195	436
Prior year adjustment (as explained below*)	–	(186)
Total gains and losses recognised since last annual report	195	250

Group Historical Cost Profits and Losses for the year ended 31 December 1997

There is no difference between the result as disclosed in the profit and loss account and that on an unmodified historical cost basis.

Movements in Shareholders' Funds for the year ended 31 December 1997

	1997 £m	1996 £m
Profit (loss) for the financial year	■	(34)
Dividends payable excluding provision for redemption premium	(155)	(161)
Retained profit (loss) for the year	38	(195)
Other recognised gains and losses (net)	■	470
Issue of Ordinary share capital	5	10
Repurchase of Ordinary share capital	(291)	–
Goodwill realised on closures or disposals	–	63
Elimination of goodwill arising in the year	(32)	(368)
Net movement in shareholders' funds	(278)	(20)
Shareholders' funds ■ 1 January		
As previously stated	1,796	2,002
Prior year adjustment (as explained below*)	–	(186)
As restated	1,796	1,816
Shareholders' funds at 31 December	1,518	1,796

*In 1996, the Group revised its accounting policy for land and buildings which ■ now based on historical cost as opposed to professional valuation.

Accounting Policies

- 1 Basis of preparation** The Company was incorporated on 22 December 1995 as Megastorm Plc and changed its name to The Rank Group Plc on 23 July 1996. Up to 7 October 1996, the Company's assets and paid in capital amounted to only £2, and it did not trade or declare or pay any dividends or make any other distributions. Effective from 7 October 1996, the Company became a holding company owning 100% of the issued share capital of The Rank Organisation Plc following implementation of a scheme of arrangement under S.425 Companies Act 1985. For the year ended 31 December 1996, the acquisition was accounted for as a merger combining the accounts of the Company for the period from 22 December 1995 to 31 December 1996 with those of The Rank Organisation Plc and its subsidiaries.

The accounts are prepared under the historical cost convention, modified by the inclusion in 1996 of an investment at Directors' valuation, and comply with applicable accounting standards on a basis consistent with the previous year. The Group's profit and loss account and balance sheet include the accounts of the Company and its subsidiary undertakings, and the Group's share of profits or losses and reserves of its associated undertakings. The profits or losses of subsidiary undertakings acquired or sold during the period are included as from or up to the dates on which control passes.

- 2 Foreign currency** Revenues, costs and cash flows of overseas undertakings are included in the Group profit and loss account at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date except where a forward exchange contract has been arranged when the contracted rate is used. Exchange differences on the retranslation of opening net assets and results for the period of foreign subsidiary undertakings are dealt with through reserves net of differences on related foreign currency borrowings. Other gains and losses arising from foreign currency transactions, including trading, are included in the consolidated profit and loss account.

The principal exchange rates affecting the Group were:

	1997		1996	
	Year-end	Average	Year-end	Average
United States dollar	1.65	1.64	1.70	1.57
Canadian dollar	2.37	2.28	2.33	2.13
German mark	2.96	2.91	2.64	2.34
Spanish peseta	251	241	222	202

- 3 Income recognition** Turnover consists of sales of goods and services and is generally recognised as goods are shipped or services are rendered. Turnover for casinos includes the gaming win before deduction of gaming duty.
- 4 Deferred expenditure** Deferred expenditure comprises (a) those costs incurred prior to the commencement of trading which are regarded as a prepayment against future profits to be earned, (b) other amounts deferred including rights acquired and (c) advance payments on supply contracts. The expenditure is included in prepayments and is written off over periods of three to eight years, the period over which the related benefits are expected to arise.
- 5 Goodwill** Goodwill arising on acquisition is eliminated against reserves in the year that it arises. The profit or loss on the disposal or termination of a business includes any goodwill previously eliminated against reserves.
- 6 Stocks** Stocks include work in progress and are valued at the lower of cost (including an appropriate proportion of overhead) and net realisable value.
- 7 Tangible fixed assets** No depreciation is provided on freehold land or on certain properties, which are freehold or held on lease for a term exceeding 20 years unexpired, where the Directors are of the opinion that the properties concerned are currently sufficiently well maintained to ensure that the residual values of such properties are such that the depreciation would be insignificant.

Other freehold properties are depreciated on a straight line basis over 100 years or useful life, if less. Other leased properties are depreciated over the lesser of 100 years, their useful life or the term of the lease. Expenditure on major refurbishment of properties is amortised over periods of between 3 and 15 years. Other fixed assets are depreciated mainly at rates between 5% and 25% per annum on a straight line basis.

Interest costs that are directly attributable to the construction of a tangible fixed asset are capitalised as part of the cost of the asset concerned.

Accounting Policies

- 8 Leased assets** Assets acquired under finance leases are included in tangible fixed assets. Depreciation is provided at rates designed to write off the cost in equal annual amounts over the shorter of the estimated useful lives of the assets (which are the same as those for assets purchased outright) and the period of the leases. The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding. Operating lease payments are charged to the profit and loss account as incurred. No provision is made for future costs on vacant leasehold properties. Such costs are expensed as incurred.
- 9 Pensions** The pension costs relating to the UK defined benefit scheme are assessed in accordance with the advice of a qualified actuary using the projected unit method. Actuarial surpluses and deficiencies are amortised on a straight line basis over the expected average remaining service lives of the employees. The pension costs relating to the UK defined contribution scheme represent the contributions payable by the Group. Overseas schemes are accounted for in accordance with local conditions and practice such that the costs are charged against profits on a systematic basis over the service lives of the employees.
- 10 Taxation** Current taxation is applied to taxable profits at the rates ruling in the relevant country. Deferred taxation is provided in respect of timing differences to the extent that it is probable that a liability will arise in the foreseeable future. Advance Corporation Tax on dividends paid is set off against United Kingdom current liabilities and deferred tax provisions to the extent that it is considered recoverable. Irrecoverable Advance Corporation Tax is written off as part of the tax charge for the period.

Notes to the Accounts

1 Segmental information

	Turnover		Profit before exceptional items		Profit after exceptional items		Capital employed (c)	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Analysis by Division (a)								
Deluxe Entertainment Services	626	592	88	80	61	61	485	487
Hard Rock	235	194	46	46	47	46	676	622
Holidays								
UK Holidays	401	401	71	60	71	(15)	547	547
US Holidays	70	95	1	6	1	1	227	227
	509	496	72	66	72	(9)	885	774
Leisure								
Gaming	372	372	57	56	57	(10)	617	617
Entertainment	256	184	36	36	50	15	432	339
	639	556	107	92	107	5	1,083	956
Other	-	17	(4)	(4)	(4)	(18)	-	(7)
Continuing operations	2,009	1,855	310	280	310	85	3,129	2,832
Discontinued operations (b)	3	229	-	10	-	28	(1)	40
	2,012	2,084	310	290	310	113	3,128	2,872
Share of investments								
Universal Studios Florida			14	14	14	14	133	144
Universal Studios Resort developments			-	-	-	-	123	64
Rank Xerox			49	49	20	49	-	930
Other			-	-	-	-	11	1
			40	63	40	63	267	1,139
Total capital employed							3,395	4,011
Non-operating items (net)					(43)	(62)		
Net interest payable and other similar charges			(47)	(56)	(47)	(49)		
Profit on ordinary activities before tax			303	297	260	65		

(a) Inter-segmental turnover is not material.

(b) Discontinued operations comprise Rank Film Distributors, the Rank Precision Industries companies and Shearings.

(c) Capital employed comprises net operating assets plus purchased goodwill.

Notes to the Accounts

1 Segmental information continued

	Depreciation		Investment expenditure		cash flow		assets	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Analysis by Division								
Deluxe Entertainment Services	32	27	58	103	102	(19)	274	296
Hard Rock	7	6	18	315	■	(268)	116	81
Holidays								
UK Holidays	■	27	131	113	(27)	(9)	616	513
US Holidays	■	4	■	7	■	(11)	208	201
	■	31	136	120	(25)	(20)	■	714
Leisure								
Gaming	41	40	101	149	■	(22)	491	458
Entertainment	15	12	117	200	(49)	(144)	369	277
	56	52	218	349	(24)	(166)	860	735
Other	■	2	—	2	(63)	(49)	—	(7)
Continuing operations	124	118	■	889	(4)	(522)	2,074	1,819
Discontinued operations	—	■	—	25	■	185	(1)	■
	124	126	■	914	■	(337)	2,073	1,859
Investments								
Universal Studios Florida			—	—	33	10	118	129
Universal Studios Resort developments			50	14	(50)	(14)	123	64
Rank Xerox			—	—	■	41	—	930
Other			9	—	(9)	—	11	1
			■	14	457	37	252	1,124
			519	928	523	(300)	2,325	2,983
Interest paid (net)					(65)	(59)		
Tax and dividends					(247)	(200)	(142)	(169)
Other non-operating assets (liabilities) (net)							374	(62)
Acquired debt and other non-cash items			(6)	(61)	■	61		
Net debt							(1,012)	(930)
			513	867	217	(498)	1,545	1,822

	Turnover by origin		Operating profit by origin				Net assets	
	1997 £m	1996 £m	Before exceptional items		After exceptional items		1997 £m	1996 £m
			1997 £m	1996 £m	1997 £m	1996 £m		
Geographical analysis								
United Kingdom	1,165	1,038	1■	151	183	(27)	1,512	1,271
North America	742	732	1■	116	106	102	500	479
Rest of the World	1■	85	21	13	21	10	■	69
Continuing operations	2,009	1,855	310	280	■	85	2,074	1,819

Turnover by destination is not materially different from turnover by origin.

Notes to the Accounts

■ Turnover and operating profit

	Continuing operations £m	1997 Discontinued operations £m	Total £m	Continuing operations £m	1996 Discontinued operations £m	Total £m
Turnover	2,009	■	2,012	1,855	229	2,084
Cost of sales	(1,411)	(3)	(1,414)	(1,305)	(175)	(1,480)
Gross profit	598	-	598	550	54	604
Distribution costs	(98)	-	(98)	(107)	(25)	(132)
Administrative expenses	(197)	-	(197)	(217)	(21)	(238)
Other operating income (costs)	7	-	7	(141)	20	(121)
Operating profit	310	-	■	85	28	113
Exceptional items included above are:						
In cost of sales	-	-	-	(11)	-	(11)
In administrative expenses	-	-	-	(36)	-	(36)
In other operating income (costs)	-	-	-	(148)	18	(130)
	-	-	-	(195)	18	(177)

The total figures for continuing operations in 1997 include the following amounts relating to acquisitions: cost of sales £27m and administrative expenses £2m. Other operating income in 1997 includes a profit of £2m arising on the disposal of properties and a loss of £1m arising on the disposal of continuing operations.

	1997 £m	1996 £m
Operating profit is stated after charging (crediting) the following items:		
In normal trading		
Depreciation of tangible fixed assets	124	126
Operating lease payments – land and buildings	40	39
– plant and machinery	2	2
In exceptional items		
Permanent diminution of operating assets	-	148
Restructuring costs	-	35
Costs of capital reorganisation	-	12
Income from revision of contractual arrangements	-	(18)

The total audit fee (including expenses) for the year was £1.1m (1996 £1.1m). The fee in respect of the Company was £50,000 (1996 £50,000). The total audit fees for 1997 and 1996 include amounts paid to KPMG who audit certain subsidiaries. Fees for non-audit work paid by the Company and its UK subsidiaries to the Group auditor were £2.5m (1996 £0.8m) and for non-audit work for overseas subsidiaries were £0.1m (1996 £0.1m).

3 Non-operating items

	1997 £m	1996 £m
Profit on disposal of continuing operations' properties	-	11
Loss (including provision for loss) on disposal of continuing operations' properties	-	(22)
	-	(11)
Loss on disposal of continuing operations (after deducting goodwill of £Nil (1996 £29m))	-	(33)
Loss on disposal of investment in Rank Xerox (a)	(74)	-
Profit (including release of provisions) on disposal of discontinued operations	31	23
Loss (including provision for loss) on disposal of discontinued operations (after deducting goodwill of £Nil (1996 £34m))	-	(41)
Profit (loss) on disposal of discontinued operations (b)	■	(18)
Non-operating items before tax	(43)	(62)

The tax charge attributable to non-operating items is £Nil (1996 £4m).

Notes to the Accounts

(a) Rank Xerox sale	
Gross disposal proceeds	
1997 dividend entitlement	(20)
Discount on deferred proceeds (net of interest receivable)	(27)
Costs of contract renegotiations and the transaction	(37)
Book value of investment	
Non-operating loss on disposal	(74)

The gross disposal proceeds of £940m are receivable in three instalments. The first instalment of £500m was received on completion on 30 June 1997. The second and third instalments of £220m and £220m plus 4% interest are receivable on the first and second anniversaries of completion respectively. They were discounted to a present value of £413m at 30 June 1997.

(b) Discontinued operations disposed of in the period principally consist of Rank Film Distributors.

4 Net interest payable and other similar charges	1997 £m	1996 £m
Interest payable on bank loans and overdrafts	37	19
Interest payable on other loans		52
Finance charges on finance leases	1	2
Interest capitalised in period	(12)	(10)
Amortisation of interest capitalised (note 13)	1	1
Interest payable and other similar charges	71	64
Interest receivable from deposits and current asset investments	(4)	(8)
Gain on cancellation of interest rate swaps	(5)	-
Release of discount on deferred disposal proceeds	(15)	-
Net interest payable and other similar charges before exceptional items	47	56
Exceptional gain on repayment of foreign currency debt	-	(7)
Net interest payable and other similar charges	47	49

5 Taxation on profit on ordinary activities

	Before exceptional items £m	1997 Exceptional items £m	Total £m	Before exceptional items £m	1996 Exceptional items £m	Total £m
United Kingdom corporation tax						
Current	44	-		55	58	113
Deferred		-		(4)	(10)	(14)
Advance Corporation Tax written off (recovered)	-	-	-	1	(25)	(24)
Attributable to franked investment income	-	-	-	10	-	10
		-		62	23	85
Overseas tax						
Current	12	-		10	1	11
	12	-		10	1	11
Taxation on share of profits of associated undertakings	3	-		-	-	-
	64	-		72	24	96

Company and its subsidiaries United Kingdom corporation tax on profits for the year has been provided at 31.5% (1996 33.0%). The United Kingdom tax charge is stated after crediting double tax relief of £Nil (1996 £1m) in respect of income of subsidiary undertakings.

Tax charged on exceptional items in 1996 was mainly in respect of the planned disclaimer of capital allowances claimed in earlier years, partially offset by the recovery of Advance Corporation Tax.

■ Profit attributable ■ the parent company

The profit for the financial year in the accounts of The Rank Group Plc was £2,543m (1996 £303m). As allowed by S. 230 Companies Act 1985, no profit and loss account is presented in respect of The Rank Group Plc.

7 Dividends

	1997 £m	1996 £m
Convertible Redeemable Preference shares		
Dividends payable for the period	18	19
Provision for redemption premium	2	2
	20	21
Ordinary shares		
Interim paid of 5.25p per share (1996 5.00p)	41	42
Final proposed of 12.75p per share (1996 12.00p)	■	100
	137	142

■ Earnings per Ordinary share

	1997 £m	1996 £m
Net profit for the year before exceptional items	■ ■ ■	222
Less: Preference dividends	(20)	(21)
Earnings before exceptional items	216	201
Exceptional items after tax	(43)	(256)
Earnings (loss) after exceptional items	173	(55)
Weighted average number of Ordinary shares	814.3m	834.9m
Earnings per share before exceptional items	26.5p	24.1p
Earnings (loss) per share	21.2p	(6.6)p

(a) Earnings per share before exceptional items has been calculated to show the impact of exceptional items as these can have

■ distorting effect on earnings and therefore warrant separate consideration.

(b) The earnings per share would not be materially lower if calculated on a fully diluted basis.

■ Tangible fixed assets

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Payments on account and assets in ■ of construction £m	Total £m
Group				
Cost at 31 December 1996	1,188	957	152	2,297
Currency translation adjustment	(1)	(2)	-	(3)
New businesses acquired	5	3	-	■
Additions	179	181	64	424
Disposals	(2)	(55)	-	(57)
Transfers including to current assets	111	38	(162)	(13)
Cost at 31 December 1997	1,480	1,122	54	2,656
Depreciation at 31 December 1996	219	504	-	723
Reclassifications	(21)	21	-	-
Currency translation adjustment	-	(1)	-	(1)
New businesses acquired	1	1	-	2
Disposals	-	(43)	-	(43)
Depreciation for the year	14	110	-	124
Transfers including to current assets	-	(12)	-	(12)
Depreciation at 31 December 1997	213	580	-	793
Net book amount at 31 December 1997	1,267	542	54	1,863
Net book amount at 31 December 1996	969	453	152	1,574

(a) Land and buildings with a net book amount of £910m (1996 £760m) are not depreciated. The net book amount of tangible assets for the Group includes £17m (1996 £13m) interest capitalised.

Notes to the Accounts

(b) The book amounts for fixtures, fittings, plant and machinery include the following amounts in respect of assets held under finance leases: cost £30m (1996 £27m), depreciation £5m (1996 £1m), net book amount £25m (1996 £26m). The depreciation charge in respect of these assets was £4m (1996 £4m).

	1997 £m	1996 £m
The net book amount of land and buildings comprised		
Freeholds	840	671
Long leases (over 50 years unexpired)	354	188
Short leases	73	110
	1,267	

10 Commitments

Future capital expenditure At 31 December 1997 commitments for capital expenditure amounted to £144m (1996 £162m) for the Group and £Nil (1996 £Nil) for the Company.

Group operating lease commitments The commitment at 31 December 1997 to make payments under operating leases in the following 12 months was:

	Land and buildings		Plant and machinery	
	1997 £m	1996 £m	1997 £m	1996 £m
Leases expiring in one year	2	1	–	–
Leases expiring in two to five years	9	7	–	8
Leases expiring in more than five years	27	27	–	–
	38	35	2	–

11 Investments

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Subsidiary undertakings (note 12)	–	–	2,379	604
Associated undertakings (note 13)	241	193	–	–
Other investments (note 14)	11	931	2	1
	252	1,124	2,381	605

12 Investments in subsidiary undertakings

	Company			
	Shares at cost £m	Loans and advances £m	Provisions £m	Net book amount
Balances at 31 December 1996	298	306	–	604
Additions	2,784	–	–	2,784
Disposals	(303)	–	–	(303)
Repayments	–	(306)	–	(306)
Provisions for permanent diminution in value	–	–	(400)	(400)
Balances at 31 December 1997	2,779	–	(400)	2,379

Details of principal subsidiary undertakings are given on page 41.

13 Interests in associated undertakings

	Participating interests at cost £m	Group share of post acquisition reserves £m	Total £m
Associated companies (unlisted)			
Balances at 31 December 1996	195	(2)	193
Currency translation adjustment	5	-	5
Additions	57	-	57
Capital distributions	(13)	-	(13)
Amortisation of interest capitalised	(1)	-	(1)
Net book amount at 31 December 1997 (a)	241	(2)	241

(a) Included in interests in associates is £241m (1996 £193m) in respect of the Group's 50% interests in the Universal City Florida, Universal City Development and Universal Rank Hotel partnerships. These amounts include £26m (1996 £19m) net interest capitalised.

	Universal Studios Florida	
	1997 £m	1996 £m
Share of retained profit for the period		
Share of profits less losses before taxation	20	14
Dividends and distributions receivable by the Group	(20)	(14)
Amounts retained attributable to shareholders of the Company	-	-

Details of principal associated undertakings are given on pages 42 and 43.

14 Other investments

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Balances at 31 December 1996	931	-	1	-
Transferred from associated undertakings (note 13)	-	432	-	-
Revaluation adjustment	-	498	-	-
Additions	10	1	1	1
Disposals (note 3)	(930)	-	-	-
Balances at 31 December 1997	11	931	1	1

Other investments include £2m (1996 £1m) in respect of 390,000 (1996 145,739) Ordinary shares in The Rank Group Plc held at cost by The Rank Group Plc Employee Benefit Trust. As at 1 January 1997 the Trust also held an option to subscribe for up to 3,500,000 Ordinary shares but renounced the option during the year. Dividends on the shares held have been waived by the trustees with the exception of one penny in total. The Trust may make such investments in the shares of the Company or otherwise as the trustee or trustees may determine to provide benefits to any eligible employee. The benefits may be provided in the form of shares, cash or otherwise although any share related benefit will be provided in accordance with an appropriate employee share scheme or bonus scheme of the Company. None of the shares are under option to employees and none have been conditionally gifted to them. The balance of other investments comprises the Group's investment in Universal Studios Japan.

15 Stocks

	Group	
	1997	1996
	£m	£m
Raw materials and consumables	21	35
Work in progress	4	3
Finished goods and goods for resale	31	30
Film productions	-	22
Completed properties for resale	35	28
Property developments in progress	5	■
	■	124

16 Debtors

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Amounts falling due within one year				
Trade debtors	134	137	-	-
Amounts owed by subsidiary undertakings	-	-	19	-
Disposal proceeds	213	-	213	-
Other debtors	■	44	-	-
Assets held for disposal	6	8	-	-
Prepayments and accrued income	113	91	-	-
Instalment sale debtors	10	11	-	-
Notes receivable	12	12	-	-
Advance Corporation Tax recoverable	5	■	5	-
	■	312	237	-
Amounts falling due after more than ■■■ year				
Trade debtors	-	7	-	-
Disposal proceeds	210	-	210	-
Other debtors	13	20	-	-
Prepayments and accrued income	■	49	-	-
Instalment sale debtors	54	58	-	-
Notes receivable	77	74	-	-
Advance Corporation Tax recoverable	■	27	24	27
	421	235	■	27

17 Cash, deposits and current asset investments

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Cash, current accounts and overnight deposits	70	44	-	-
Term deposits	20	14	-	-
	■	58	-	-
Current asset investments	16	19	-	-
Cash, deposits and current asset investments (note 27)	■	77	-	-

Current asset investments comprise amounts placed with external fund managers. The majority of the investments can be converted into cash within seven days and the remainder within 30 days. The investments are with counterparties with strong credit ratings.

Notes to the Accounts

18 Loan capital and borrowings

	Group 1997 £m	1996 £m
Bank overdrafts	■	7
Bank loans repayable:		
Within one year or on demand	-	72
Between one and two years	42	42
Between two and five years	470	368
	512	482
Other borrowings repayable:		
Within one year or on demand	■	39
Between one and two years	59	62
Between two and five years	233	270
In five years or more – by instalment	239	147
	597	518
Total	1,118	1,007
Secured	■	1
Unsecured	1,100	990
Obligations under finance leases	17	16
Total	1,118	1,007
Amounts due within one year or on demand	75	118
Amounts due after more than one year	1,043	889
Loan capital and borrowings (note 27)	1,118	1,007

Certain borrowings are secured by either fixed or floating charges on various assets and certain subsidiary undertakings.

Borrowings shown above include:

- (a) borrowings repayable by instalments any instalment of which falls due after five years totalling £303m (1996 £313m), with an average rate of interest payable of 9.9% (1996 9.9%),
- (b) £99m (1996 £99m) in respect of an 8½% eurosterling bond redeemable at par in 2000,
- (c) £113m (1996 £Nil) in respect of US\$200m 6.75% guaranteed notes redeemable at par in 2004, and
- (d) bank loans repayable between one and five years of £512m (1996 £410m) have been classified according to the term of the committed facility under which they have been borrowed, although they are repayable within one year.

The Company had no borrowings at 31 December 1997 (1996 £Nil).

The finance costs of debt instruments are charged to the profit and loss account over the term of the debt at ■ constant rate on the carrying amount. Such costs include the costs of issue, any discount to face value arising on issue or any premium payable on maturity.

Financial instruments A description of the policies relating to financial instruments is set out in the Operating and Financial Review on page 15.

(a) Interest risk management

Some 53% of the Group's net borrowings is fixed rate, with a weighted average interest rate of 9% and ■ weighted average term of 4.5 years. The Group uses interest rate swaps to manage the level of floating rate debt to a predetermined proportion of net debt. At 31 December 1997, the Group's net debt was 31% denominated in sterling, 60% in US dollars with the balance in a mix of currencies. In addition, the Group uses forward starting swaps to fix interest rates on long-term instruments in advance of the finalisation of such instruments. Any profits or losses arising on such swaps are included in the finance costs of the instrument to which they relate and amortised over the life of the associated instrument. A net cost of £5m was deducted from the proceeds receivable from long-term instruments in the year ended 31 December 1997.

Notes to the Accounts

18 Loan capital and borrowings continued

(b) Exchange risk management

The Group hedges its exposure to the translation of foreign currency net assets using foreign currency borrowings. The table below compares the Group's net assets by currency with the Group's net debt in the same currency.

	Net assets £m	Net debt £m
Sterling	1,744	311
United States dollar	712	611
Canadian dollar	11	11
Spanish peseta	36	10
Other currencies (net)	31	9
	2,557	1,012

The Group hedges estimated foreign currency transactional cash flows over a 12 month timeframe using foreign exchange contracts. In addition, the Group also hedges varying percentages of the estimated US dollar receipts by Group companies outside the USA over a five year timeframe, the percentages reducing over the five years.

At 31 December 1997, as a result of the transactional exposure cover outlined above, the Group had outstanding gross foreign exchange contracts equivalent to approximately £123m (1996 £133m). The contracts have maturities up to 2002 with an average maturity of 18 months from the balance sheet date.

(c) Fair values

The estimated fair values of borrowings and the associated derivative financial instruments at 31 December 1997 are set out below. The fair value of quoted borrowings are based on year end mid-market quoted prices. The fair values of other borrowings and the derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end.

	Net carrying amount £m	Estimated fair value £m
Borrowings	(1,118)	(1,172)
Foreign exchange contracts	-	(2)

The estimated fair values of cash at bank and in hand and current asset investments are not materially different from their carrying values.

The difference between net carrying amount and estimated fair value reflects unrealised gains or losses inherent in the instrument based on valuations at 31 December 1997. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

(d) Credit risk

The counterparties to the interest rate swaps, forward exchange contracts and term deposits are major international financial institutions with strong credit ratings. The Group continually monitors its positions and the credit ratings of its counterparties.

19 Other creditors

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Amounts falling due within one year				
Payments received on account	8	8	-	-
Trade creditors	130	132	-	-
Amounts owed to subsidiary undertakings	-	-	107	1
United Kingdom corporation tax	11	49	1	-
Overseas taxation	1	1	-	-
Advance Corporation Tax	34	35	34	27
Other tax and social security	1	16	-	-
Other creditors	53	61	-	-
Accruals and deferred income	153	124	8	-
Accrued dividends	8	8	1	8
Proposed final dividend on Ordinary shares	96	100	1	100
	532	536	254	136
Amounts falling due after more than one year				
Other creditors	5	9	-	-
Accruals and deferred income	1	1	-	-
	1	18	-	-

20 Provisions for liabilities and charges

	Deferred taxation £m	Acquisition provisions £m	Other provisions £m	Total £m
Group				
Balances at 31 December 1996	9	2	52	63
Charged to the profit and loss account in the year	5	-	5	10
Advance Corporation Tax	(3)	-	-	(3)
Utilised during the year	-	(1)	(26)	(27)
Balances at 31 December 1997	11	1	31	43

Other provisions at 31 December 1997 are principally in respect of restructuring and reorganisation costs.

21 Deferred taxation

	Provided		Not provided (recognised)	
	Group		Group	
	1997 £m	1996 £m	1997 £m	1996 £m
Capital allowances	13	15	(29)	(2)
Other timing differences	1	(6)	(2)	-
	14	9	(31)	(2)
Advance Corporation Tax	(3)	-	(17)	(17)
	11	9	(48)	(19)

The above figures exclude:

- (a) taxation payable in the event of the accumulated reserves of certain overseas subsidiary and associated undertakings being distributed as there is no present intention to distribute them, and
- (b) taxation payable on capital gains which might arise from the sale of certain investments at the values at which they are stated in the Group's balance sheet.

22 Capital and

	1997			1996		
	Authorised	Issued and fully paid		Authorised	Issued and fully paid	
	£m	Number	Nominal value £m	£m	Number	Nominal value £m
US\$ Cumulative Preference shares	1	-	-	3	-	-
Convertible Cumulative Redeemable Preference shares of 20 pence each	60	227.5	45	60	227.5	45
Ordinary shares of 10 pence each	120	754.9	76	120	836.6	84
	181		121	183		129

Under the 1995 Share Savings Scheme approved by shareholders of The Rank Organisation Plc on 28 February 1995 and the 1996 Share Savings Scheme adopted by the Board of Directors of The Rank Group Plc on 24 July 1996, employees hold options to subscribe for up to 4,353,929 (1996 3,228,153) Ordinary shares at prices between 282.70p and 350.00p per share exercisable by 2002.

Under the Executive Share Option Scheme approved by shareholders of The Rank Organisation Plc on 14 March 1985, the 1995 Executive Share Option Scheme approved by shareholders of The Rank Organisation Plc on 28 February 1995 and the 1996 Executive Share Option Scheme adopted by the Board of Directors of The Rank Group Plc on 24 July 1996, Directors and executives hold options to subscribe for up to 14,797,633 (1996 13,457,663) Ordinary shares at prices ranging between 243.08p and 484.50p per share exercisable by 2007. Under the Overseas Executive Share Option Plan approved by shareholders of The Rank Organisation Plc on 15 March 1989, executives hold options to subscribe for 1,552,555 (1996 1,889,116) Ordinary shares at prices ranging between 234.84p and 407.60p per share exercisable by 2005.

Options granted under the Share Savings Schemes are exercisable normally within a period of six months after the third or fifth anniversary of the SAYE contract. Options granted under the Executive Share Option Schemes are exercisable normally within a period commencing on the third anniversary and ending on the tenth anniversary of the date of grant.

	Share capital			Share premium account £m
	Preference £m	Ordinary £m	Total £m	
Share capital and share premium account				
Balances at 31 December 1996	45	84	129	1
Issue of Ordinary shares in the year	-	-	-	5
Repurchase of Ordinary shares	-	(8)	(8)	-
Balances at 31 December 1997	45	76	121	■

The Company purchased 83,687,655 Ordinary shares for cancellation during the year pursuant to the Special Resolution approved by shareholders on 10 April 1997.

On 4 June 1997, 10,543 Ordinary shares were issued by virtue of the conversion of 38,921 Preference shares. A further 1,941,067 Ordinary shares were issued during the year on the exercise of options.

Non-equity shareholders' funds relate entirely to the Convertible Cumulative Redeemable Preference shares ("Preference shares"). These shares carry an entitlement to a dividend at the rate of 8.25p (net) per share per annum. They are convertible in any of the years up to 2003 into Ordinary shares of 10p each at a rate equivalent to 27.09 Ordinary shares for every 100 Preference shares and may be redeemed at £1 per share at any time after 30 April 2003 at the option of the Company and, in any event, will be redeemed at £1 per share on 31 July 2007. Holders of the Preference shares have one vote for every five shares held but only on a resolution for the winding-up of the Company or on a resolution affecting the rights attached to the shares or if the Preference Dividend has remained unpaid for six months. Holders of Preference shares have the right on a winding-up to receive, in priority to any other class of shares, the sum of £1 per share together with any arrears of dividend.

	Group £m	Company £m
Capital redemption	-	-
Balances at 31 December 1996	-	-
Arising on repurchase of Ordinary shares	8	■
Balances at 31 December 1997	8	8

Notes to the Accounts

22 Capital and reserves *continued*

	Group £m
Revaluation reserves	
Balances at 31 December 1996	498
Transfer on disposal	(498)
Balances at 31 December 1997	-

	Company and its subsidiaries		Associated under-takings	Group
	Preference redemption £m	Other £m	£m	£m
Other reserves				
Group				
Balances at 31 December 1996	1	1,169	(2)	1,168
Currency translation adjustments	-	2	-	2
Surplus on profit and loss account for the year	-	36	-	36
Provision for redemption premium	2	-	-	2
Repurchase of Ordinary shares	-	(291)	-	(291)
Transfer from revaluation reserve on disposal of investment	-	498	-	498
Elimination of goodwill arising in the year	-	(32)	-	(32)
Balances at 31 December 1997	3	1,382	(2)	1,383

Of the £2m gain on other net currency translation adjustments, a loss of £9m arises from the translation of foreign currency borrowings less deposits. The total cumulative goodwill eliminated against reserves at 31 December 1997 amounted to £1,075m (1996 £1,032m).

	Preference redemption £m	Other £m	Total £m
Other reserves			
Company			
Balances at 31 December 1996	1	365	366
Surplus on profit and loss account for the year	-	2,386	2,386
Repurchase of Ordinary share capital	-	(291)	(291)
Provision for redemption premium	2	-	2
Balances at 31 December 1997	3	2,460	2,463

23 Analysis of minority interests

	Equity £m	Non-equity £m	Total £m
Balances at 31 December 1996	1	25	26
Minority interest in the profit on ordinary activities after tax	1	2	3
Dividends payable to minority shareholders	-	(2)	(2)
Balances at 31 December 1997	1	25	27

The non-equity minority shareholders have no rights against Group companies other than the issuing entity, except in the event that the issuer defaults. In such circumstances, a put option exists to require the Company to purchase the shares at par.

24 Reconciliation of operating profit to operating cash flows

	1997 £m	1996 £m
Operating profit	310	113
Provision for permanent diminution of operating assets	-	148
Other exceptional operating costs and provisions	-	47
Cash payments in respect of other exceptional operating costs and provisions	(25)	(6)
Depreciation	124	126
Net loss on sale of tangible fixed assets	5	-
Decrease (increase) in stocks	10	(20)
(Increase) in debtors	(45)	(82)
Increase (decrease) in creditors	■	(8)
Other items	9	(1)
Net cash inflow from operating activities	443	317

Notes to the Accounts

25 Purchase of subsidiaries and minorities

	1997 £m	1996 £m
Tangible fixed assets	6	101
Net current assets (liabilities) excluding cash	5	(9)
Net assets	11	92
Loans and finance leases	-	(40)
	11	52
Goodwill	32	368
	43	420
	1997 £m	1996 £m
Satisfied by:		
Cash paid	43	410
Less: cash acquired with subsidiaries	-	(1)
Cash outflow on purchase of subsidiaries and minorities	43	409
Loan notes issued	-	11
Consideration	43	420

There were no material differences between the book values of assets and liabilities in the acquired entities' books immediately before acquisition and the fair values in the table above. In addition, no changes were necessary as a result of aligning accounting policies. Acquisitions in the year principally consist of the Hard Rock cafes in and brand rights for the Caribbean and Argentina and a logistical distribution business in North America. No adjustments have been made to the provisional goodwill arising on acquisitions made in 1996.

26 Sale of businesses and investments

	Businesses £m	Investments £m	Total £m	1996 £m
Net assets disposed of:				
Tangible fixed assets	2	-	2	189
Interests in associated undertakings and investments	-	930	930	2
Stocks	20	-	20	44
Debtors	33	13	46	74
Creditors	(22)	-	(22)	(75)
	33	943	976	234
Goodwill previously eliminated against reserves	-	-	-	63
Profits less losses on disposal before tax (net)	44	(74)	(40)	(51)
Sales consideration	67	869	936	246
Consisting of:				
Sales proceeds less related costs	68	44	112	255
Cash disposed of with subsidiaries	(2)	-	(2)	(4)
Cash inflow from sale of businesses and investments	66	44	110	251
Accrual for future related costs	-	(8)	(8)	(5)
Deferred consideration receivable	1	413	414	-
	67	445	936	246

Notes to the Accounts

27 Reconciliation of net debt

	1997 £m	1996 £m
Increase (decrease) in cash in the year	11	(231)
(Increase) in debt and lease financing	(96)	(259)
(Decrease) increase in liquid resources (a)	(3)	2
(Increase) in net debt from cash flows	(69)	(488)
Loans and finance leases acquired with subsidiary	-	(40)
Loan notes issued	-	(11)
New finance leases	(6)	(10)
Foreign exchange differences	(7)	45
(Increase) in net debt in year	(82)	(504)
Net debt at 1 January	(930)	(426)
Net debt at 31 December	(1,012)	(930)
Cash, deposits and current asset investments (note 17)	106	77
Loan capital and borrowings (note 18)	(1,118)	(1,007)
Net debt at 31 December	(1,012)	(930)

(a) The net increase in liquid resources consisted of purchases of deposits and investments of £14m (1996 £54m) and sales of £17m (1996 £52m).

28 Analysis of net debt

	31 December 1996 £m	Cash inflow (outflow) £m	Other non-cash changes £m	Foreign exchange differences £m	31 December 1997 £m
Cash in hand, at bank	58	32	-	-	90
Overdrafts	(7)	(2)	-	-	(9)
		30			
Debt due after one year	(877)	(201)	59	(7)	(1,026)
Debt due within one year	(107)	100	(59)	-	(66)
Finance leases	(16)	5	(6)	-	(17)
		(96)			
Liquid resources	19	(3)	-	-	16
Total	(930)	(69)	(6)	(7)	(1,012)

Liquid resources comprise current asset investments which, as described in note 17, represent amounts readily convertible into cash.

29 Directors

(a) Directors' interests

The Directors' interests in shares or stocks of the Company, including options to purchase Ordinary shares under the terms of the Group's executive share option schemes and share savings schemes, are detailed in the Report of the Remuneration Committee together with details of options to subscribe for Ordinary shares of the Company granted to and exercised by Directors, or which lapsed, in the year ended 31 December 1997.

(b) Total emoluments of the Directors of The Rank Group Plc

	1997 £000	1996 £000
Fees	133	170
Basic salaries, allowances and taxable benefits	1,508	1,897
Bonuses	-	411
Pension contributions	287	458
Gain from exercise of share options	11	188
Compensation for loss of office	-	370
Total emoluments	2,123	3,494
(c) Emoluments of Chairman	268	268
(d) Emoluments of highest paid Director (including pension contributions)	755	560

■ Directors continued

(e) Company policy on the remuneration of Directors and details of the remuneration of each Director are set out in the Report of the Remuneration Committee on pages 3 to 7.

30 Employees

Employee costs	1997 £m	1996 £m
Wages and salaries	431	439
Social security costs	34	33
Other pension costs	10	10
	475	482

Average number of employees by geographical area

	1997	1996
United Kingdom	31,432	30,224
North America	10,334	8,522
Rest of the World	1,906	1,434
Continuing operations	43,672	40,180
Discontinued operations		3,298
Average in year	43,698	43,478

Provision for pension and similar obligations

United Kingdom The Group has two pension schemes for UK employees both of which are contracted-out of the State Earnings Related Pension arrangements. The schemes are externally funded under separate trusts and the funds' assets are held separately from Group assets. The accounts of both schemes for the year ended 5 April 1997 have been reported upon by their auditors without qualification.

The Rank Pension Plan is a defined benefit scheme with pensions fixed by reference to final pay and length of service. The market value of the funds' assets at 5 April 1997 was £412m (1996 £388m) excluding the value of annuities purchased to match pensions in payment.

Formal actuarial valuations of the Plan are carried out triennially by an independent actuary, William M. Mercer Limited, using the projected unit method. At the last valuation at 5 April 1996, which was adopted during the year, the actuarial value of the assets was sufficient to cover 107% of the accrued benefits allowing for expected future increases in earnings. The main actuarial assumptions adopted were that, over the long term, the rate of return on investments would be 9.5% p.a., the rate of increase of pensionable remuneration would be 7% p.a. and the rate of pension increases would be 3% p.a.

The pension charge for the year to 31 December 1997 was £5m (1996 £4m). The charge was determined after spreading the actuarial surplus of £11m (1996 £6m) over the average remaining service lives of the active members of the Plan.

The actual Group cash contributions to the Plan in the year to 31 December 1997 totalled £5m (1996 £10m). At 31 December 1997 there was a prepayment in debtors of £12m (1996 £12m) resulting from the difference between pension costs charged in the accounts and amounts funded to date.

The Rank Money Purchase Pension Scheme is a defined contribution scheme with benefits which depend on the contribution levels and the emerging investment performance. The market value of its assets at 5 April 1997 was £26m (1996 £22m). Group contributions to this Scheme in the year to 31 December 1997 totalled £1m (1996 £2m).

USA The Group operates defined contribution schemes in the USA. Group contributions to these schemes totalled £15m (1996 £4m).

Other countries Group contributions to schemes for employees in other countries totalled £Nil (1996 £Nil).

31 Contingent liabilities

	1997 £m	1996 £m
Group		
Guarantees by the Company and by subsidiary undertakings, bills discounted by Group companies and uncalled liability in respect of partly paid shares	214	120

The Group is involved in a dispute with Serena Holdings Limited over the purchase consideration of an acquisition which has been referred to an expert for determination. The dispute centres upon the parties' contentions in relation to the accounts and the profits of the businesses based upon which an additional purchase consideration may be payable. The Directors are strongly resisting the payment of any further sum. At the present time the outcome to the Group cannot be determined and the potential liability cannot be quantified. However, it is the opinion of the Directors that it is unlikely that the outcome of this dispute will have a material effect on the Group's financial position.

As a result of the scheme of arrangement following which The Rank Group Plc acquired 100% of the issued share capital of The Rank Organisation Plc on 7 October 1996, it is possible that further liabilities may arise. No provision has been made for these liabilities as, in the opinion of the Directors, it is unlikely that they will arise.

A subsidiary undertaking is involved in class action suits in the USA. The actions are being vigorously contested and the Directors believe that none of these actions will result in a material adverse effect on the financial condition of the Group.

	1997 £m	1996 £m
Company		
Guarantees of advances to subsidiary undertakings, bills discounted and uncalled liabilities in respect of partly paid shares	1,091	426

No security has been given in respect of any contingent liability.

32 Related party transactions

The Group recharges The Rank Group UK Pension Schemes with the costs of administration and independent pension advisers borne by the Group. The total amount recharged in the year ended 31 December 1997 was £1,168,000 (1996 £1,112,000).

Principal Subsidiary Undertakings

Except where otherwise stated The Rank Group Plc ("Rank") owns indirectly 100% of the ordinary share capital and voting rights of the following companies. There are also holdings of preference shares which are separately disclosed. The companies are incorporated in Great Britain unless otherwise indicated after the company name. The principal operations are carried out in the country of registration.

Deluxe Entertainment Services	Principal activities
Deluxe Laboratories Inc. (USA)	Film processing laboratory
Deluxe Toronto Limited (Canada)	Film processing laboratory
Pinewood Studios Limited	Film production studios, post-production facilities and services
Rank Film Laboratories Limited	Film processing laboratory
Rank Video Services America Inc. (USA)	Video duplication
Rank Video Services GmbH (Germany)	Video duplication
Rank Video Services Iberia, S.L. (Spain)	Video duplication
Rank Video Services Limited	Video duplication
Hard Rock	
Hard Rock Cafe International (USA) Inc. (USA)	Operates and franchises Hard Rock cafes worldwide
Holidays	
Butlin's Limited (Rank also owns indirectly all the 6% cumulative preference shares)	Holiday Worlds and holiday hotels
Haven Leisure Limited	Caravan/chalet parks in the UK, France, Spain and Italy
Oasis Villages Limited	Holiday villages
Resorts USA Inc. (USA)	Outdoor World holiday memberships at caravan park resorts, the sale of timeshares, second homes and land
Warner Holidays Limited	Holidays just for adults
Rank Holidays Division Limited	Divisional holding company
Leisure	
Grosvenor Casinos Limited	London and provincial casinos
Mecca Bingo Limited	Social and bingo clubs
Odeon Cinemas Limited	Film exhibition
Rank Entertainment Limited	Operation and development of multi-leisure centres and nightclubs
Rank Leisure Machine Services Limited	Amusement machine hire and sales
Tom Cobleigh Plc	Operation and development of a managed public house estate
Rank Leisure Division Limited	Divisional holding company
Holding & Other Companies	
Rank America Inc. (USA)	Owns the Group's investments in the USA
Rank Group Finance Plc	Funding operations for the Group
Rank Holding España SA (Spain)	Owns the Group's investments in Spain
Rank Holdings (France) SA (France)	Owns the Group's investments in France
Rank Holdings (Germany) GmbH (Germany)	Owns the Group's investments in Germany
Rank Holdings (Netherlands) BV (Netherlands)	Owns the Group's investments in Rank America Inc. and other overseas subsidiary undertakings
Rank Leisure Holdings Plc (Rank owns 100% of the ordinary shares, none of the cumulative redeemable preference shares and 100% of the voting rights)	Owns the Group's investments in the UK operating subsidiary undertakings and Rank Overseas Holdings Limited
Rank Orlando Inc. (USA)	Owns the Group's investments in Universal City Florida Partners
Rank Orlando II Inc. (USA)	Owns the Group's investments in Universal City Development Partners
Rank Overseas Holdings Limited	Owns 100% of Rank Holdings (Netherlands) BV

A full list of subsidiary undertakings will be included in the Company's Annual Return.

Principal Associated Undertakings

Universal Studios Resort

In the segmental analysis set out on pages 24 and 25, the Group's interests in Universal City Florida Partners ("UCFP") are referred to as Universal Studios Florida, and the interest in Universal City Development Partners ("UCDP") and the Universal Rank Hotel Partners ("URHP") as "Universal Studios Resort developments". All three partnerships are 50% owned joint ventures between the Group and Universal Studios Inc., a subsidiary of The Seagram Company Ltd.

UCFP operates Universal Studios Florida, the film and television studio and motion picture theme park in Orlando, Florida. UCDP is developing an 821 acre site in Orlando, Florida on which is situated Universal Studios Florida and on which is being constructed ■ second theme park ("Universal's Islands of Adventure"), an entertainment zone ("Universal CityWalk") and associated infrastructure.

"CityWalk" is planned to open in December 1998, while "Islands of Adventure" is planned to open in May 1999. The present and future theme park operations are and will be managed by Universal Studios Inc.

The third partnership, URHP, was formed to develop three resort hotels in the same location. It is anticipated that Loews Corporation will become ■ 50% investor in the partnership and will manage the hotels.

A summary of the Group's share of the financial statements of the three partnerships is set out below. The figures for UCDP and URHP have been combined and are referred to as those of the "development partnerships".

	1997 £m		1996 £m
Profit and loss account (Group share)			
Turnover	112		111
Operating profit	25		19
Net interest payable	(5)		(5)
Profit before tax	20		14

	27 December 1997			28 December 1996		
	Universal Studios Florida £m	Development partnerships £m	Total £m	Universal Studios Florida £m	Development partnerships £m	Total £m
Balance sheet (Group share)						
Fixed assets	156	■	421	156	135	291
Current assets						
Cash and deposits	—	3	3	2	3	5
Other	21	■	■	19	17	36
	21	28	■	21	20	41
Creditors (amounts falling due within one year)						
Other	(23)	(22)	(45)	(16)	(19)	(35)
	(23)	(22)	(45)	(16)	(19)	(35)
Net current (liabilities) assets	(2)	■	4	5	■	6
Total assets less current liabilities	154	271	425	161	136	297
Creditors (amounts falling due after more than one year)						
Loan capital and borrowings	(88)	(161)	(249)	(76)	(85)	(161)
Net assets	■	110	176	85	51	136
Additional Group investment	■	21	■	44	13	57
Total carrying value	110	131	241	129	64	193

Principal Associated Undertakings

	1997			1996		
	Universal Studios Florida £m	Development partnerships £m	Total £m	Universal Studios Florida £m	Development partnerships £m	Total £m
Cash flow (Group share)						
Operating profit	25	-	25	19	-	19
Depreciation and amortisation	17	-	17	18	-	18
Change in working capital	(4)	-	(4)	(1)	-	(1)
Cash flow from operating activities	38	-	38	36	-	36
Interest paid (net)	(5)	(9)	(14)	(5)	(4)	(9)
Purchase of tangible fixed assets	(12)	(116)	(128)	(10)	(85)	(95)
Cash inflow (outflow) before financing	21	(125)	(104)	21	(89)	(68)
Distributions to partners	(33)	-	(33)	(10)	-	(10)
Contributions by partners	-	50	50	-	14	14
Increase in net debt	(12)	(75)	(87)	11	(75)	(64)
Opening net debt	(74)	(82)	(156)	(92)	(14)	(106)
Currency translation adjustments	(2)	(1)	(3)	7	7	14
Closing net debt	(88)	(158)	(246)	(74)	(82)	(156)

Five Year Review

Year ended	31 December 1997	31 December 1996	31 December 1995 Proforma	31 December 1994 Proforma	31 October 1993 Proforma
	£m	£m	£m	£m	£m
Turnover					
Current operations	2,009	1,838	1,640	1,532	1,366
Former operations	3	246	279	303	408
	2,012	2,084	1,919	1,835	1,774
Operating profit before exceptional items					
Current operations	310	278	248	240	204
Former operations	-	12	8	(1)	(3)
	310	290	256	239	201
Exceptional items charged against operating profit	-	(177)	-	-	-
Non-operating items (including share of associates)	(43)	(62)	236	3	65
Universal Studios Florida	20	14	10	10	12
Rank Xerox before restructuring costs	-	-	187	210	151
Rank Xerox restructuring costs	-	-	-	(62)	-
Other associates	-	-	(1)	-	(1)
Dividends receivable from Rank Xerox	20	49	-	-	-
Interest (net)	(47)	(49)	(44)	(74)	(88)
Profit before tax	260	65	644	326	340
Tax	(64)	(96)	(124)	(113)	(112)
Minority interests	(3)	(3)	(3)	(5)	(5)
Preference dividends and appropriations	(20)	(21)	(21)	(21)	(21)
Earnings (loss)	173	(55)	496	187	202
Earnings (loss) per Ordinary share	21.2p	(6.6)p	59.7p	22.6p	25.5p
Earnings per Ordinary share before exceptional items	26.5p	24.1p	31.4p	27.2p	18.6p
Total Dividend per Ordinary share	18.00p	17.00p	15.75p	13.25p	12.16p

	31 December 1997	31 December 1996	31 December 1995 Proforma	31 October 1994 Proforma	31 October 1993 Proforma
	£m	£m	£m	£m	£m
Group funds employed					
Fixed assets	1,863	1,574	1,518	1,396	1,372
Investments	252	1,124	622	779	779
Other assets (net)	442	54	127	47	164
Total funds employed at year end	2,557	2,752	2,267	2,222	2,315
Financed by					
Ordinary share capital and reserves	1,302	1,582	1,604	1,206	1,106
Preference share capital including premium	216	214	212	209	207
Minority interests	27	26	25	48	47
	1,545	1,822	1,841	1,463	1,360
Net debt	1,012	930	426	759	955
	2,557	2,752	2,267	2,222	2,315
Average number of employees (000's)	43.7	43.5	39.1	39.7	41.0

The proforma results for the years 1993 to 1995 are those of The Rank Organisation Plc and its subsidiaries. These results have been restated to reflect the changes in accounting policies relating to casinos' turnover and fixed asset revaluations. In addition, operating profit has been restated to identify exceptional items separately.



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